Austria ..Sch 28	Indonesia ..Rp 2600	Philippines ..Pes 20
Bahrain ..Din 0.650	Israel ..Shk 3.50	Portugal ..Esc 90
Belgium ..BFr 45	Italy ..L1600	S. Arabia ..Rls 6.00
Canada ..C$1.00	Japan ..Y550	Singapore ..S$ 4.10
Cyprus ..C£0.70	Jordan ..Fils 500	Spain ..Pta 175
Denmark ..Dkr 8.00	Kuwait ..Fils 500	Sri Lanka ..Rup 30
Egypt ..E£1.00	Lebanon ..L£ 25.00	Sweden ..Skr 7.00
Finland ..Fmk 6.50	Luxembourg ..Lfr 45	Switzerland ..SFr 2.20
France ..FFr 6.00	Malaysia ..Ringg 4.25	Taiwan ..NT$65
Germany ..DM 2.20	Mexico ..Pes 300	Tunisia ..Din 1.375
Greece ..Dr 80	Morocco ..Dh 8.00	Turkey ..L 350
Hong Kong ..HK$ 12	Netherlands ..Fl 2.75	U.A.E. ..Dh 6.50
India ..Rup 15	Norway ..Nkr 7.00	U.S.A. ..$1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,973 Monday July 7 1986 D 8523 B

How Israel tamed its runaway inflation, Page 2

World news

Polling heavy in Japanese election

Japanese voters turned out in large numbers for yesterday's general election, suggesting that Prime Minister Yasuhiro Nakasone could be heading for a big victory.

Two hours before polling booths were due to close, the Home Affairs Ministry reported that voter turnout was heavier than in 1980, when the ruling Liberal Democratic Party (LDP) had a landslide.

Analysts say a large turnout usually benefits the LDP because the party can count on the support of increasingly conservative floating voters normally not politically active. Nakasone is gambling his political future on the elections to restore the majority his party lost in 1983. Page 2

Kremlin visitor

French President François Mitterrand begins three days of in-depth talks with Soviet leader Mikhail Gorbachov in Moscow today following his New York meeting with President Reagan. Page 2

EEC cash crisis

EEC finance ministers meet in Brussels today to seek a way out of the Community's worst cash crisis, caused when the European Court declared the 1986 budget illegal.

Nuclear probe

A team of American scientists arrived in the Soviet Union after apparently winning permission to monitor its main underground nuclear test site for the first time.

Anger at Nicaragua

The Pope, who is visiting Colombia, launched a bitter attack on Nicaragua's left-wing government because of its expulsion of the conservative Bishop Pablo Antonio Vega.

Mexican poll

Voting began for leadership of Chihuahua, Mexico's largest state, with the right-wing opposition convinced of victory despite what it called government efforts to rig the poll. Page 2

Zambia alert

Zambia is on the alert for an attack by South Africa after four captured South Africans confessed they were on a reconnaissance mission for Pretoria, President Kenneth Kaunda said.

Israeli spy case

Israeli Police Minister Chaim Bar-Lev broke the silence surrounding an espionage case and confirmed that an Israeli officer is on trial accused of spying for Syria.

Fatal Paris fire

Five people were killed when a fire set off by a gas explosion engulfed a building in the Paris garment district.

Final farewell

Relatives of two Australian drug traffickers due to be hanged at dawn today in Malaysia left in tears after spending a seven-hour final visit inside jail.

Caricature goes

Iranian authorities have painted out a caricature of Mrs Margaret Thatcher, the British Prime Minister, which dominated the wall of the old British Embassy.

Treasure 'stolen'

Indonesia says an 18th century sunken ship's treasure auctioned in Amsterdam recently was stolen from its territorial waters.

Becker wins

Boris Becker of West Germany won his second successive singles tennis title at Wimbledon, beating Ivan Lendl 6-4, 6-3, 7-5.

Mansell first

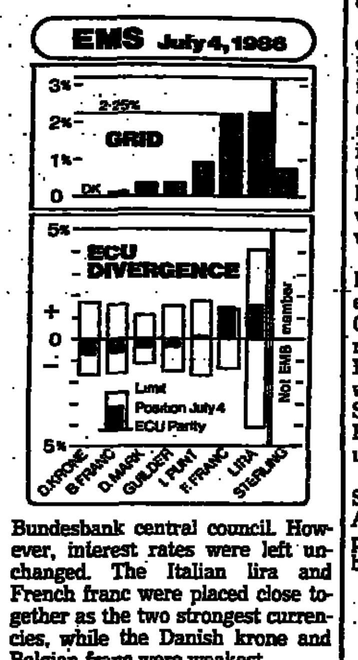
Briton Nigel Mansell won the French Grand Prix at Le Castellet. Alain Prost of France finished second.

Business summary

China devalues to boost trade

CHINA has devalued its currency by 15.8 per cent in an attempt to improve its trade performance. Page 2

EUROPEAN Monetary System: Most currencies traded quietly in the EMS last week. Activity slowed ahead of Friday's closure of US centres and yesterday's elections in Japan. Trading levels were also subdued as the market awaited Thursday's meeting of the West German Bundesbank central council. However, interest rates were left unchanged. The Italian lira and French franc were placed close together as the two strongest currencies, while the Danish krone and Belgian franc were weakest.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

TOKYO: Nikkei index finished 2.37 down at 17,595.36 in Saturday's half-day session. Leading share prices. Page 29

CITY OF LONDON'S Securities and Investment Board membership is likely to be revised before the end of the month. Page 5

GREENWELL MONTAGU, the UK stockbroking firm which is part of the Midland Bank Group, is to terminate its agency role and will act only as principal in respect of institutional business in UK equities after the City of London's Big Bang. Page 5

SECURITISATION of credit to UK companies, whereby borrowers issue marketable securities instead of obtaining interest-bearing cash from banks, is moving ahead rapidly, according to a Lloyds Bank adviser. Page 5

UK GOVERNMENT'S favoured way of introducing profit-sharing into pay packets has been dealt a severe blow with its overwhelming rejection by employers. Page 5

WEST GERMAN fears of job losses could prove an obstacle to its participation in the big telecommunications venture proposed by CGE, the French state-owned group, and ITT of the US. Page 16

AT&T, the US telecommunications group, is planning to open the first overseas subsidiary of its Bell Laboratories research unit in Japan this week. Page 16

NEC, the Japanese electronics maker, and its group companies registered a 59.5 per cent slide in net profits. Page 16

HOLTZBRINCK, West Germany's second biggest publishing group, has offered to buy Scientific American, the US publisher of the science magazine, for $52.6m. Page 14

HORTEN, the big West German department store group, has slipped into the red with a net loss of DM 84.4m ($38.5m) last year. Page 15

WINDSMOOR, the UK fashion house, is offering for sale today 6.6m shares at 106p, valuing the company at £23.3m ($35.8m). Page 20

Howe's mission to South Africa put in jeopardy

BY ROBERT MAUTHNER AND JOHN HUNT IN LONDON

SIR GEOFFREY HOWE, the British Foreign Secretary, may have to postpone or cancel at least the first of his two planned missions to South Africa this month on behalf of the European Community because President P. W. Botha of South Africa does not want to receive him at this time.

For the moment, the British Government is closing its eyes to what is already interpreted in both British political circles and other EEC countries as a major diplomatic snub. However, the Government is insisting that it is only a question of timing and that President Botha had not objected in principle to the visit, which is due to take place this week.

President Botha is understood to have indicated to the British Government that a meeting with Sir Geoffrey at this stage is "inconvenient" and that neither he nor Mr Pik Botha, his Foreign Minister, would be able to see the Foreign Secretary this week. Officials in Pretoria said the President's schedule was already full.

The obstacles put in the way of Sir Geoffrey's mission by the South African Government are compounded by the refusal of most black anti-apartheid leaders in South Africa to meet him.

Both Anglican Bishop Desmond Tutu and Dr Allan Boesak, President of the World Alliance of Reformed Churches, have said that they would coldshoulder Sir Geoffrey in protest at what they see as the stalling tactics employed by the UK Government on economic sanctions against South Africa.

Intensive diplomatic contacts are continuing to find other dates for the Foreign Secretary's visit which would suit President Botha. But as far as Sir Geofrey is concerned, the "windows" for an alternative trip are very few and the South African Government must be aware of this through their Ambassador in London, Dr Dennis Worrall.

The Foreign Secretary, who was expected to leave on Tuesday evening after attending a meeting of the European parliament in Strasbourg, must be back in London next Saturday for the important official visit to Britain on July 14 and 15 of Mr Eduard Shevardnadze, his Soviet opposite number.

The second leg of Sir Geoffrey's mission to South Africa was tentatively scheduled for the last week of this month, just before the Commonwealth mini-summit in London on August 2 to August 4, at which sanctions against South Africa will be the major topic of discussion. It is therefore difficult to see how the Foreign Secretary will be able to fit in two visits to South Africa before then if, as expected his first trip is delayed.

One of the biggest stumbling blocks to Sir Geoffrey's mission from the South African point of view appears to be the mandate that he has been given by the EEC governments. After the failure of the Commonwealth Eminent Persons' Group (EPG) to find a formula for bringing about a peaceful solution of racial and political strife in South Africa, the Foreign Secretary has stressed that he is not going on just another "fact-finding mission."

As current President of the EEC's Council of Ministers, he would be going to South Africa with the full authority of the member of the 12 member states to try to create the conditions for a genuine dialogue between the Pretoria authorities and the country's black leaders. Sir Geoffrey has also made it clear that, like the EPG, he would be seeking the release of Mr Nelson

Continued on Page 14

Ready for sanctions; Buthelezi attacks ANC strategy, Page 2

UK Customs investigates packaging industry duties

BY LIONEL BARBER IN LONDON

BRITISH Customs & Excise is investigating suspected evasion of EEC anti-dumping duties by UK importers of kraftliner paper, used principally in the corrugated box and casing industry. The sums involved could run into several million pounds.

Over the past 10 weeks, Customs officials have visited more than 40 paper and box manufacturers. In a number of cases, notably during one snap raid in mid-April, officials carried search warrants.

Among the companies visited are Reed Corrugated Cases, the UK market leader and subsidiary of Reed International; Bowater Containers; UK corrugated, the three-way joint venture between the Irish group Jefferson Smurfit, Macmillan Bloedel of Canada and Assi of Sweden; and St Regis Holdings, bought last April for £72m by David S. Smith, the fast-growing UK packaging company.

All four companies confirmed last week that Customs officials had visited their premises but without carrying search warrants. They described the visits as courtesy calls and said that Customs had received full co-operation. Senior executives representing either the parent company or the individual company concerned in each instance stressed that they had not infringed EEC regulations.

Mr Michael Howard, director of the British Fibreboard Packaging Association, said all but two of the Association's 49 members had been questioned by Customs. "It is staggering," he said, "I cannot remember anything quite like it."

The Customs investigation has taken the industry aback because it centres on events between 12 and 18 months ago when the price of kraftliner dropped dramatically, mainly due to overstocking by users and price-cutting by suppliers.

An EEC Council regulation dating back to March 1983 imposed a definitive anti-dumping duty on kraftliner paper and board originating in the US, the dominant world supplier. Undertakings were also sought – and given – by kraftliner suppliers in Austria, Sweden, Canada, the Soviet Union, Portugal and Finland. The regulation did not, however, cover Brazil or South Africa.

The regulation reaffirmed a 7 per cent duty on US exports of kraftliner into the EEC and a minimum intervention price of $333 a tonne. No producer was expected to sell below that price.

Around 12 months ago, kraftliner was selling in the UK and in the EEC at well below the intervention price, sometimes as low as $260 or $270 a tonne.

It is unclear, however, whether purchasers of kraftliner all paid the anti-dumping duty to Customs.

One sales director of a major Swedish producer of kraftliner explained: "In theory no one was supposed to sell below $333 a tonne and so the question never arose of evading Customs duties."

The Customs investigation coincides with an EEC Commission review of the anti-dumping legislation to establish whether it is working effectively. Many kraftliner suppliers and users, backed by other paper manufacturers, argue that the legislation is undesirable because it interferes with market forces.

Background, Page 4

British Cabinet to study radical plan for improving inner cities

BY OUR INDUSTRIAL STAFF IN LONDON

LARGE areas of dereliction in eight of Britain's big cities would be taken out of local authority control and have hundreds of millions of pounds pumped into them in a radical proposal to be put to the UK Cabinet this month by Mr Nicholas Ridley, Environment Secretary.

The proposal is to repeat the experiment of the London and Merseyside Docklands Development Corporations, set up in 1981. The new Urban Development Corporations (UDCs) would be in areas of north-east and north-west England Merseyside and the West Midlands, where the scale of urban dereliction has proved too great for local authorities.

The existing development corporations were established in the face of fierce opposition from the Treasury and from local authorities objecting to the loss of their democratic control over the areas.

Treasury opposition is again likely as eight more UDCs could add around £400m ($618m) a year to public spending. However, many ministers including Mrs Margaret Thatcher, the Prime Minister, are now anxious to see some dramatic activity to imporve the state of Britain's cities.

But Birmingham, one of the eight cities proposed for a new UDC, is firmly opposed to the idea and has already started talks with companies such as Citibank, Touche Ross and builders Wimpey, Galliford and Douglas in an attempt to form a joint local authority-private sector development company to head off the Government.

Other local opposition may be more muted than in 1981. Some Labour-controlled councils have let it be known quietly that they would welcome such a large-scale injection of cash in their worst areas and the Government is considering inviting councils to nominate sites and apply for UDC status.

If the Cabinet backs the idea the new corporations could be set up quickly by parliamentary order under the legislation which created the bodies in London and Merseyside. If a different format was adopted which required new legislation this would be included in the next Queen's speech (outlining the Government's parliamentary programme) in the autumn.

The existing corporations cost the Exchequer around £90m a year in direct grants. The London experiment has been much the most successful. It covers Western Europe's largest derelict site – eight square miles of dockland – and has secured more than £1bn of private investment including 2,700 completed homes with estates for 5,000 homes under construction.

The new corporations would be much smaller, although none is likely to be under 200 acres.

Local councils lose all their con-

Continued on Page 14

Marcos aide sets up rebel 'government'

BY SAMUEL SENOREN IN MANILA

A BID by Philippines' opposition leader Mr Arturo Tolentino to set up a rebel government ended, when troops supporting him surrendered to government forces at dawn without firing a shot. The surrender came after crack marine units had surrounded the rebels' headquarters in the Manila Hotel.

More than 300 rebel troops filed out of the hotel and were escorted to the navy headquarters less than a mile away, ending the rebel government which Mr Tolentino, who proclaimed himself acting president, set up 12 hours earlier.

The rebel forces decided to give up peacefully after reinforcements which they had expected to come from the northern Philippines, the home region of deposed President Ferdinand Marcos, failed to arrive. After the surrender, government forces sent a dozen light tanks to the Manila Hotel in a show or force to arrest Mr Tolentino and his key advisers.

Mr Arturo Tolentino, the deposed president's vice-presidential running mate in the February elections, took his oath as vice-president at a rally attended by thousands of supporters loyal to Mr Marcos.

He then installed himself in the government-owned luxury Manila Hotel, backed by about 200 armed troops and marines, and issued a challenge to President Corazon Aquino.

Mr Tolentino, a 75 year-old lawyer picked by Mr Marcos as his running mate in a vain attempt to restore some credibilty to his campaign, was joined by half a dozen generals and scores of politicians including Mr Ali Dimaporo, a former governor from Mindanao with a 3,000-strong private army.

By nightfall, however, Mr Tolentino's claim of support from two key figures in the Philippines military who would have proved decisive in a challenge to Mrs Aquino proved hollow.

General Fidel Ramos, the Chief of Staff and Mr Juan Ponce Enrile, the Defence Minister, both of whom led the civilian-backed army revolt against Mr Marcos, repudiated the rebels.

Mr Tolentino had named both men in his rebel "cabinet." Mr Enrile thanked Mr Tolentino for the offer, "but I am not looking for a new job," he said.

General Ramos was at Mrs Aquino's side in Mindanao and reaffirmed his support for her.

Mrs Aquino's administration was at pains to appear calm in the face of this latest challenge to its authority.

Mrs Aquino said she would order the Minister of Justice and the Solicitor General immediately to file charges against Mr Tolentino and his advisers for sedition. Under the old constitution which Mrs Aquino abolished, sedition was punishable with death.

Mrs Corazón Aquino

Mr Joker Arroyo, Mrs Aquino's executive secretary dismissed the loyalists seizure of the hotel earlier this afternoon as "nothing to worry about."

But with no Aquino troops on the streets and a navy gunboat anchored in Manila Bay in support of the Marcos forces, Aquino supporters in the capital feared that her government might still face a serious threat.

The troops and marines ringing the Manila Hotel – headquarters of General Douglas MacArthur before the Japanese invasion in World War Two – were armed with M16s and heavy machine guns.

They had no armour but claimed that pro-Marcos tank units were rumbling towards the capital from the north, the Marcos stronghold. Among the six generals who rallied behind Tolentino today, four are on the active list and two among those pensioned off by the Aquino government.

Pro-Marcos officers broadcast radio appeals for support, while government television relayed a message from General Ramos in Mindanao denying that he and Mr Enrile were backing Mr Tolentino.

From the Manila Hotel where he was holed up, Mr Tolentino appealed to the nation and the armed forces to join him in upholding the constitution which Mrs Aquino discarded after taking power.

"I seek only unity and progress for our people under the principle of democracy, constitutionalism and the rule of law," he said.

He also called on the speaker of the defunct Parliament, Mr Nicanor Yniguez, to reconvene the assembly.

Bulldogs provide preview of London's Big Bang

By Nick Bunker and Clare Pearson in London

AT LEAST 13 London Stock Exchange member firms are poised to begin market-making in so-called Bulldog stocks today in a small-scale prelude to October's Big Bang deregulatory reforms in the City of London.

Preparations for today's charge in market practices have been underway since March, when the exchange's council issued two technical notices. They provided for a foretaste of the stock exchange revolution due on October 27, by allowing firms this week to start dual capacity dealing in Bulldogs, and to offer investors negotiable commissions on transactions in the stocks.

Bulldogs are strictly defined as issues of sterling-denominated fixed income securities in the UK by overseas borrowers, such as foreign governments, companies or financial institutions like the European Investment Bank. More than 100 are now in issue.

Today's transition to dual capacity and negotiable commissions is designed to give exchange member firms an extra competitive edge in dealing in Bulldogs, which are widely traded off the market.

By Friday evening, 13 firms had registered as Bulldog market makers with the exchange. They are all firms due to become primary dealers in the gilts market in October. Some believe this week's change will yield clues about how primary dealers will behave after Big Bang.

Dual capacity is also likely to lead to an increase in the number of Bulldogs issued through placements rather than offers for sale. The last two issues, for Portugal and the European Investment Bank, both arranged by S. G. Warburg as placements, have anticipated this.

Sovereign and state-backed issues had previously taken the offer for sale route, as they enjoyed the slimmest secondary trading commissions, since they were treated as gilt-edged stocks. This could result in lower coupon-payments, since investors could accept lower returns for increased liquidity.

Dual capacity eliminates this reason for the offer-for-sale where up-front costs are higher than for placments.

In the case of the £90m ($139m) issue for European Investment Bank, S. G. Warburg purchased the entire deal itself and it was later placed by Rowe and Pitman, Warburg's broking arm.

Lex, Page 14; Capital markets, Section II

CONTENTS

OVERSEAS NEWS

S. Africa says it is ready for sanctions

BY JOHN STEWART IN JOHANNESBURG

THE South African Government appears to believe that international sanctions are inevitable. Recent remarks by Mr Pik Botha, the Foreign Minister, indicate that the Government may no longer even consider them an issue.

In a speech on Thursday in the Eastern Transvaal colliery town of Witbank, he virtually invited international action. He told members of the ruling National Party: "Don't let them (sanctions) make you afraid. The quicker they come, the better, because we will show the world we will not be made soft."

The speech, which clearly expressed an official position, suggests that the Government not only believes that sanctions would not be effective but that they might even bring short-term relief to the present economic recession.

On the other hand, Pretoria's apparent rejection of mediation and negotiation as a means to end violence and establish a new order has caused alarm in the business community.

Eight of South Africa's leading businessmen, who control assets worth an estimated £9bn, have appealed to President P. W. Botha to release Mr Nelson Mandela, the jailed leader of the banned African National Congress, and to lift the ban on the organisation and other outlawed black nationalist movements.

The businessmen are: Mr Gavin Relly, chairman of Anglo-American Corporation; Mr Tony Bloom, chairman of the Premier Group; Mr Raymond Ackerman, chairman of Pick 'n' Pay; Mr John Wilson, executive chairman of Shell South Africa; Mr Ian Sims, chairman of BP Southern Africa; Mr Neil Chapman, chief executive of Southern Life Insurance; Mr Gordon Waddell, chairman of Johannesburg Consolidated Investments; and Mr Dorian Wharton-Hood, managing director of Prudential Assurance of South Africa.

Meanwhile, a new study by one of the country's most respected research institutions says that trade sanctions would put more than 1m South Africans out of work.

The study, by the University of South Africa's Bureau of Market Research, indicates that 94 per cent of the estimated number of jobless would be black. It says that conservatively about 1.7m blacks are already unemployed or underemployed. If a further 600,000 were to lose their jobs as a result of trade embargoes, about 32 per cent of economically active blacks would be out of work.

The researchers say that the study provides incontrovertible evidence that sanctions will not result in an import-replacement investment boom, such as the one which tided Rhodesia over the worst effects of the international embargo imposed after UDI. Rhodesia's boom was, in any event, fuelled by a sympathetic neighbour, which was experiencing one of the strongest growth phases this century.

The view is supported by Dr Conrad Strauss, managing director of Standard Bank, who says it would be impossible for South Africa to break out of its political and economic straitjacket without massive foreign capital inflows.

Buthelezi attacks ANC strategy

BY ANTHONY ROBINSON IN ULUNDI

THE SPLIT in black politics between the African National Congress (ANC) in exile and the Zulu-dominated Inkatha was underlined over the weekend at the Inkatha annual conference in the Kwazulu homeland capital of Ulundi.

Chief Mangosuthu Buthelezi ridiculed the ANC's "unrealistic and undemocratic strategy of violence" and called on President P. W. Botha to use the forthcoming National Party Congress in Durban as "an historic opportunity" to start black/white negotiations.

One of the main functions of the National Party's extraordinary Congress to be held in Durban on August 12-13 will be to flush out President Botha's proposal to create a "national statutory council" in which blacks will be invited to participate "in the planning and preparation of a constitutional dispensation which provides for the participation of all South Africans in the process of government."

Chief Buthelezi told representatives of the 1.3m-strong Inkatha movement that "he was prepared to look very carefully" at the President's proposed council, but required a mandate from them before he would participate or not.

He also made clear that he would "not touch the council with a barge-pole" until the state of emergency was lifted and until Mr Nelson Mandela, jailed ANC leader, was released and the ANC unbanned and offered participation in the council.

"If Mr Mandela is not free to accept or reject it, I will not be free to accept or reject it," the Chief said.

At a subsequent Press conference, however, Chief Buthelezi said that, if an unbanned ANC declined to participate in the proposed council, he would feel free to take part, provided he had the mandate to do so.

But he warned: "I will not go to a table to ratify whites-only decisions which are against the interests of the black majority . . . or to buy time and remove pressure from the President to bring about real change."

Chief Buthelezi devoted much of his keynote speech to attacking the ANC in exile, which, he warned, "is beginning to produce a situation of runaway violence, which neither they nor anyone else can direct or control . . . They are busy making South Africa not ungovernable for the National Party but ungovernable for any government."

Chief Buthelezi, who is an outspoken opponent of sanctions and disinvestment, rejected the ANC's argument that there was no alternative to violence by saying that "white South Africa is ready to negotiate."

The exiled leadership, he said, "has never been mandated by black South Africa to plant bombs in Wimpy bars or farm roads or street corners where blacks will be killed."

Mitterrand to stress French independence on Soviet trip

BY DAVID HOUSEGO IN PARIS

PRESIDENT MITTERRAND, who returned from the US on Friday, flies to Moscow today for a four-day visit to the Soviet Union.

Mr Mitterrand is to have three rounds of discussions with Mr Mikhail Gorbachev, the Soviet leader. These will focus on east-west issues including the Soviet proposals on disarmament. Mr Mitterrand will insist that France is not ready to make cuts in its strategic forces as part of any agreement that might emerge between the Soviet Union and the US.

The visit, however, has less weight than Mr Mitterrand's earlier trip to Moscow in 1984 or Mr Gorbachev's to Paris last year because "cohabitation" has limited the powers of the French President to negotiate.

Though Mr Mitterrand will discuss bilateral economic issues—in particular the French feel that Moscow has not been placing enough capital goods orders to offset French purchases of Soviet oil and gas—he does not have the power to make trade commitments that would bind the administration of Mr Jacques Chirac.

The visit nonetheless remains important in domestic terms because it helps President Mitterrand to maintain a high profile.

Chinese devalue currency by 15.8%

By Robert Thomson in Peking

The Chinese Government has met the expectations of diplomats and foreign bankers by devaluing the Chinese currency, the renminbi yuan, by 15.8 per cent in an attempt to improve the country's poor trade performance.

Observers here are surprised that the devaluation has been so long in coming, bearing in mind that Government action to reduce a politically-sensitive trade deficit and lift export earnings has been of limited use.

The Governor of the People's Bank of China, Chen Muhua, said on Saturday that devaluation is a "necessary and normal business step," and was needed to encourage exports and "balance foreign income and outlay," the official news agency, Xinhua, reported.

China last year recorded a deficit of $14.9bn (£9.7bn), according to the Customs Ministry, forcing the Government to restrict imports and further stimulate the export sector this year in a bid to erase the deficit, which, for some Chinese, is a sign that the country is becoming exploited by its trading partners.

While the import restrictions have been crude if effective, the lifting of export income, needed to bankroll purchases of foreign technology and expertise for modernisation, has been hindered by the oil price slump and by the enduring backwardness of the country's export industries.

Diplomats say the Government earns little if consumers complain about the increased cost of imported goods with devaluation, as it has been attempting to price them out of the market in the past year with increases in import duties. The few foreign cars allowed entry are subject to various duties and taxes totalling almost 300 per cent.

The Government has been gradually devaluing the renminbi yuan for the past year, with the dollar rising to a record rate of 3.2 yuan, despite the slump in its value in recent months.

With devaluation, the rate is now 3.7 yuan to the dollar, while there are now 23 yuan to every 1,000 yen. The fall against the yen in the past year has been particularly large. In December, there were 15.6 yuan to 1,000 yen, and before the devaluation, there were 19.7 yuan.

High Japanese poll turnout may help Nakasone

Japanese voters went to the polls yesterday to decide whether Prime Minister Yasuhiro Nakasone's conservative ruling party would solidify its control of the diet (parliament), AP reports from Tokyo.

Ballot counting is due to start today. The large voter turnout was seen as favourable for Mr Nakasone's pro-business, pro-Western Liberal Democratic Party, which has led the Government since 1955, as well as Mr Nakasone's own political future.

The turnout was 65.97 per cent, according to a report by the Home Affairs Ministry just before the polls closed. This was slightly lower than the 66.95 per cent recorded in 1980 when Mr Nakasone's Liberal Democratic Party (LDP) scored a landslide victory.

The LDP lost its outright parliamentary majority in the 1983 poll, when the voter turnout was only 62.48 per cent. Since that setback the LDP has needed a coalition with the New Liberal Club, a conservative splinter group, to maintain a majority in the House.

A strong LDP showing—forecast by Japanese media polls—is likely to boost Mr Nakasone's standing within the party and possibly open the way for a revision of party rules that would end his four-year tenure as party president in October. Under the Japanese system, the leader of the majority party in the Diet becomes Prime Minister.

Mr Nakasone, 68, has not flatly denied interest in a third term two-year term. His critics have accused him of scheming to extend his hold on the Prime Minister's job.

Austerity has had a limited success, **Andrew Whitley** reports from Tel Aviv

Israeli economy healthier but not cured

ISRAEL'S emergency economic programme has, in some ways, been a greater success than even its strongest advocates dared hope when it was launched 12 months ago.

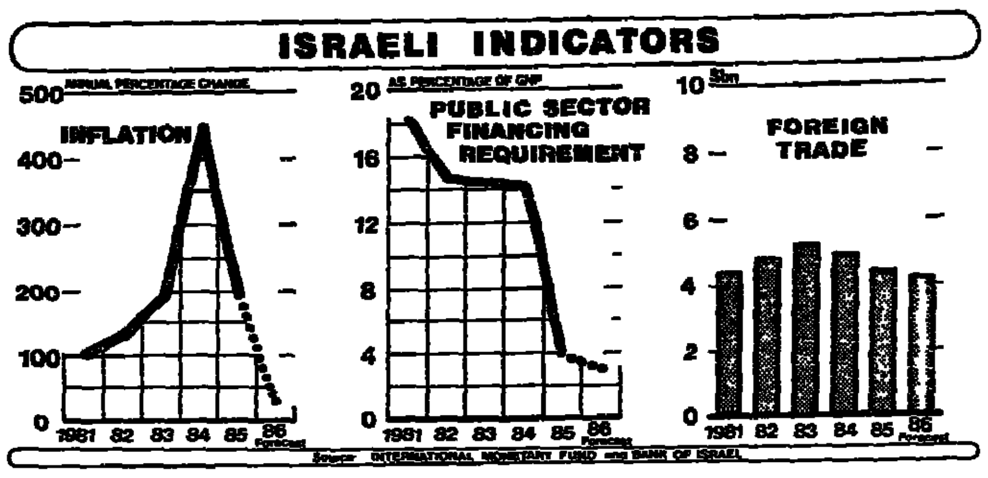
In the months leading up to last July the consumer price index was rising by a monthly average of 15.5 per cent, an annualised rate of 446 per cent. Disposable foreign exchange reserves at the halfway point in 1985 were down to a perilous $1.7bn to $1.8bn (£1.1-1.17bn), enough for less than three months' imports.

Worse, says Mr Amnon Neubach, economic adviser to Prime Minister Shimon Peres, was the loss of public faith in the ability of the quarrelling coalition Government — indeed, any democratic Government — to master the turbulent economic environment. As theory and reality in the marketplace steadily parted company, there were worrying calls for an authoritarian Government with a strongman like Mr Ariel Sharon, the former Defence Minister, to take over.

But, to everyone's surprise, the comprehensive package of measures—many of them unprecedently tough for Israel—announced by Mr Peres on July 1 took hold. With the help of a partial wages and prices freeze, a key psychological barrier was shattered and inflation dropped like a stone.

Price rises averaged only two per cent a month between August 1985 and March 1986.

ISRAELI INDICATORS



Source: INTERNATIONAL MONETARY FUND and BANK OF ISRAEL

Since then the index has stabilised at between 1 and 1.5 per cent, putting Israel on course for a 1986 full-year figure of 21.4 per cent—its best for over a decade. Price controls have been gradually eased over the past few months, with no discernible impact on the index and, according to Mr Neubach, they will be lifted totally by October, except in those areas where the Government has traditionally administered prices.

Net reserves in the Bank of Israel's coffers have, meanwhile, climbed back to a healthier level, boosted by $1.13bn (£7,400m) of the $1.5bn in emergency assistance promised by the US (conceded in return for economic reforms which have not taken place). At the end of May the reserves stood at $3.1bn (£2bn).

Despite the notable progress made on both of the Government's central objectives — sharply cutting inflation and simultaneously improving the balance of payments — this week's first anniversary of the programme brought a spate of warnings from all sides that a long haul still lies ahead.

"In July 1985 we were able to reduce the fever with a strong injection," said Dr Emmanuel Sharon, director-general of the Finance Ministry, "but we have still not cured the disease."

"The achievements of the programme are still very fragile," added Mr Yitzhak Moda'i, the former Likud finance minister responsible for implementing the programme in its critical early months, echoing a note of warning expressed by the International Monetary Fund in its latest report on Israel.

Traditional, growth-minded Labour politicians such as Mr Gad Ya'acobi, Minister of Economic Planning, agree with the Treasury about the need for continuing budgetary discipline. "We cannot expect the miracles which were responsible for the success of the programme last year to recur," said Mr Ya'acobi. "We are not at the end of the road of economic recovery, but most probably at the very beginning," he warned a public impatient for renewed real growth after several years in which the economy has either stood still or declined.

The official forecast for gross national product growth this year is 2.5 to 3 per cent, slightly up on the 1.9 per cent recorded in 1985, but still depressingly flat in per capita terms.

Israel (and the National Unity Government) have indeed been highly fortunate over the past year in the extent to which they have benefited from favourable external circumstances: the collapse in oil prices and the sharp fall in the value of the dollar, to which the shekel is effectively pegged. The exchange rate against a basket of five currencies has declined by 18 per cent over the 12 months.

But the limited extent to which the economy, especially export-orientated industry and agriculture, has responded to these beneficial factors, is giving cause for alarm.

In volume terms exports are down in the first months of this year, according to a study prepared by Euroteam, a local management consultancy, which warns about the dangers of renewed pressure on the balance of payments and reserves unless the Government takes steps to stimulate exports.

But what most worries Euroteam economists and Treasury officials alike is the fact that the Government still needs to make deep inroads into its own spending if it is to create the conditions for sound growth. And this is continues to resist.

Mexico ruling party accused of poll fraud

BY DAVID GARDNER IN CUIDAD JUAREZ, CHIHUAHUA

MEXICO's right-wing opposition and two broad-based "clean vote" movements yesterday denounced alleged Government attempts to rig state and municipal elections in the huge northern state of Chihuahua, even as voters started queueing to cast their ballots.

The election for the governorship of Chihuahua, which borders Texas and whose principal towns are controlled by the right-wing National Action Party (PAN), has captured the attention of all Mexico.

This is widely seen as a barometer of the declining credibility of the ruling Institutional Revolutionary Party (PRI) and whether Mexico's de facto one-party regime can accommodate a clean contest in an area where the opposition has an even chance of winning.

The PRI has been in uninterrupted power for 57 years and has never conceded a governorship to the opposition, though on at least three occasions it lost the vote. In neighbouring Sonora and Nuevo Leon last year it used wholesale ballot rigging to head off challengers much weaker than PAN.

Two hours before the polls opened yesterday opposition denunciations started pouring in that the PRI had already started some voting of its own at four election centres in Cuidad Juarez, the border city where Mr Francisco Barrio, the PAN's candidate for governor, is mayor.

These allegations were impossible to confirm but they follow a series of detailed claims that the PRI has for six months been putting in place the mechanism for fraud.

The state electoral laws was reformed severely to restrict opposition ability to monitor balloting and counting, in effect placing all aspects of organising the election in the hands of the PRI and its satellite parties.

The PAN will have representatives at each voting booth but nearly all the representatives of the left-wing PSUM, the other main opposition party which has been in the forefront of the clean election campaign, have been denied their credentials.

A host of other allegations have contributed to the palpable tension surrounding yesterday's voting, marked by the presence of troops patrolling the streets, with back-up from armoured personnel carriers and dogs if necessary. These range from alleged PRI inflation of the voting register, which has jumped from 944,000 in 1983 to 1,291,000, without a comparable increase in the estimated 2.5m population; government retention of voters' credentials for its own use; and the reduction of voting booths—in Juarez, for instance, from 411 to 322—to discourage voters with the long queues which had formed yesterday morning.

Undoubtedly the most serious allegations came from the two "clean vote" movements, the Democratic Electoral Movement, operating largely in the south of the state with a strong presence of the independent left, and the Democratic Struggle Committee which is operating here in Juarez and bolstered by out of state personalities.

They claim that PRI "alchemists," or professional ballot riggers, are here in force under the direct command of the Interior Ministry, and have supplied the names of those concerned, and their plan of action, given to them, they claim, by a dissident PRI official.

US car makers increase sales

BY WILLIAM HALL

SALES IN the US of domestically-produced cars rose faster than sales of imported cars in June for the first time in many months. The figures indicate that attractive domestic car sales incentives and the impact of the weaker dollar on imported car prices is starting to stem the steadily growing penetration of US car imports in the world's largest car market.

Domestically produced car sales rose 8.8 per cent in June compared with a year ago and light truck sales rose 3 per cent. The annual selling rate for domestically produced cars was 8.1m in June compared with 7.6m a year ago. Sales of imported cars rose 6.6 per cent in June but the annual selling rate of 2.9m was down from May's 3.1m.

Analysts remain uncertain about the underlying strength of US car sales. Some believe that sales are being supported by extremely attractive financing terms and even more generous terms will be needed to maintain sales growth in the third quarter. However, others argue that higher prices for imported Japanese cars are beginning to dent their competitiveness in the US market.

Among the major US car makers, Chrysler put on the best showing last month increasing its sales by 21.1 per cent to 109,000. Strong sales of its low price Omni and Horizon "America" models helped boost its share of the US car market to 12 per cent. Ford, the number two car producer, increased its sales by 3 per cent in June to 179,300, while General Motors, the biggest of the US car makers, increased its sales by 9.4 per cent to 417,292 in June.

AP adds from Detroit: Ford has raised prices an average of 2.9 per cent—its second such increase in 10 months. It also announced that it would offer buyers incentives that include loan interest rates at 6.9 per cent to 9.9 per cent or cash bonuses of up to $600.

The cut-rate interest and bonuses took effect yesterday and apply to most cars and trucks bought from dealer stocks by October the company said.

Mulroney starts Quebec talks

BY BERNARD SIMON IN TORONTO

CANADA'S Prime Minister Mr Brian Mulroney has taken an important step towards repairing relations between English speaking Canada and the predominantly Francophone province of Quebec by formally opening negotiations for Quebec to sign the federal constitution.

Indicating that the climate for Quebec to join the mainstream of Canadian politics has improved in the past few years, Mr Mulroney said that the province's exclusion from the constitution is "unfair to Canada and unfair to Quebec."

Former Quebec Premier Mr René Levèsque, who led the province's bid for political autonomy in the 1970s, refused to sign the constitution after it was repatriated from Britain in 1982. Leaders of Canada's other nine provinces rebuffed his demands at the time for special status from Quebec.

Mr Levesque stepped down as Premier last year and his party, the Parti Quebecois, was defeated by the Liberals led by Mr Robert Bourassa in elections held last December. Separatist fervour in the province has fizzled out in the past five years as Quebec politics has increasingly concentrated on economic and social issues.

Quebec's adherence to the constitution would be a triumph for both Mr Mulroney and Mr Bourassa. The decision to press ahead with negotiations partly reflects both leaders' wish to strengthen political support in the province. Mr Mulroney's Conservative Party won 58 of 75 Quebec seats in the 1984 general election, but its support has slipped badly since, according to recent opinion polls.

Mr Bourassa has already laid down several conditions for approving the constitution, none of which is now viewed as insurmountable. They include recognition of Quebec as a distinct society, more powers over immigration and the delicate question of a veto on constitutional changes.

Among the likely stumbling blocks in the negotiations will be the need to secure the agreements of the other provinces to any proposed changes in the constitution.

Syrians extend control over W. Beirut

By Nora Boustany in Beirut

CRACK SYRIAN special forces extended their control over West Beirut yesterday as part of a week-old security plan aimed at pacifying Moslem areas.

The Syrian deployment is believed to have taken place without any formal request by the government and without coordination with the Lebanese military authorities. The Syrian media has hinted the West Beirut experiment may be repeated elsewhere in Lebanon.

Elite Syrian soldiers, of the special forces units, plainclothesmen and military observers joined a Lebanese Army force on Friday to provide muscle to a security plan for the anarchy-ridden Moslem sector of the Lebanese capital.

Syrian officers said their troops, dispatched to Beirut to boost the Lebanese Army, would be in charge of the Khalde triangle, south of Beirut—a strategic junction linking the Shi'ite suburbs to the coastal highway—as a prelude to full control of the Beirut-Sidon axis.

The Syrian re-entry into West Beirut is the first such deployment since Syrian soldiers were driven out of Beirut in August 1982. It is clearly aimed at keeping a close watch on Palestinian guerrillas in the camps south of Beirut and at curbing excesses by Moslem militias.

Direct Syrian involvement is also expected to intimidate Iranian-backed Moslem fundamentalist groups, held responsible for a series of kidnappings and a flight of embassies and foreigners from Beirut. Syria is eager to dispel its image in the west of being linked to terrorism or unbridled fundamentalist activities in Lebanon.

Syrian military observers first came to Beirut last July to help supervise a ceasefire ending five weeks of fighting between Palestinian guerrillas and Shi'ite militiamen of the Amal movement.

Sikh party split deepens Punjab power struggle

By K. K. Sharma in New Delhi

THE TROUBLED Indian state of Punjab was threatened with further political instability over the weekend as the ruling Akali Party split irrevocably, leading to an open struggle for power between rival factions.

The Akali Party split, which first came into the open when Mr Surjit Singh Barnala, the moderate chief minister of Punjab, ordered police into the Golden Temple to flush out extremists on April 30, was formalised on Saturday.

A meeting of dissidents, who had broken away from Mr Barnala after the police action on April 30, on Saturday elected Mr Prakash Singh Badal, a former chief minister, as leader of what they claimed was the real Akali Party. The dissidents asked Mr Barnala to resign.

Mr Barnala yesterday reacted strongly to the split and accused the dissidents of being responsible for the death of hundreds of Sikhs and of seeking further trouble in the strife-torn state. He is expected to ask his majority group in the Akali Party to expel the dissidents.

The open confrontation threatens the Barnala state government which is now dependent for its survival on the Congress-I Party of Mr Rajiv Gandhi, the prime minister, whose members in the Punjab legislature are expected to keep him in power even though his own Akali Party is now in a minority.

This will lay Mr Barnala open to the charge by the dissidents that his policies are being dictated by Mr Gandhi.

Mr Barnala recently launched a major offensive against terrorists in Punjab after Mr Gandhi complained that the law and order situation in the state was forcing Hindus to flee to neighbouring states.

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European Commission steps up fight against air fares collusion

THE EUROPEAN Commission is this week poised to fire off letters to Europe's major airlines urging them to end their long standing collusion on air fares and capacity sharing, writes Tim Dickson in Brussels.

The action could be the beginning of a protracted legal process aimed at achieving cheaper fares and greater competition on European routes. It could result in the Commission taking one or more EEC member states to the European Court.

The Commission's widely anticipated missives have been prompted by the inability of Community transport ministers meeting at the end of last month to agree on even modest changes to established practices. These include restrictive pricing policies and bilateral deals between governments under which the number of passengers and revenue on individual routes are divided equally between the two relevant national carriers.

The Commission—supported particularly by the UK and the Netherlands—has long been campaigning for deregulation in the air but had hoped that EEC ministers would reach a satisfactory political settlement.

Now, however, the Commission would appear to have little option but to start the legal ball rolling. Its own powers to act under the Treaty of Rome were confirmed in a highly significant judgment by the European Court at the end of April—the celebrated "Nouvelles Frontières" case—and it subsequently committed itself to action after June 30 if significant political progress was not achieved.

The decision to send letters to the airlines will be confirmed at a crucial meeting either today or tomorrow between Mr Jacques Delors, the Commission President and Mr Peter Sutherland and Mr Stanley Clinton Davis, respectively the EEC commissioners for competition and transport.

The message to the airlines will essentially be that their current practices contravene Articles 85 and 86 of the Treaty of Rome and that they have one month in which to inform the Commission that, as one official put it, "they will put their house in order." If their response is not satisfactory, the Commission will put pressure on individual member states to force compliance with the EEC's competition rules, using the threat of action in the European Court as its ultimate sanction.

The Commission itself, however, has been split about the pace at which European airlines should be taken to task and Mr Clinton Davis may urge a more conciliatory line.

He believes that negotiation is still possible

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WORLD TRADE NEWS

Battle looms for Argentine port contract

BY TIM COONE IN BUENOS AIRES

A LUCRATIVE $200m (£131m) deal to dredge Argentina's principal grain port at Bahia Blanca is the subject of intensive last minute bargaining between the Argentine Government and competing foreign contractors.

A Soviet company, Technostroyexport, recently managed to obtain Argentine initialling of a "memorandum of intention" for the work, but rival bids are now also being considered from Japanese and Dutch contractors according to Argentine engineers involved in the project.

The work involves the dredging of the harbour area and a 100 km long access canal which will allow bulk carriers of up to 60-70,000 tons to enter at all states of the tide—potentially doubling the port's capacity. Work on the project is expected to take almost three years until completion.

Bahia Blanca is located at the heart of Argentina's wheat-growing Pampas zone, and is an important port not only for the export of wheat but also of sunflower seeds, maize and soya beans.

According to economic specialists at Argentina's national grain board dredging the port will permit a substantial reduction in port charges by increasing throughput and make Argentinian grains increasingly competitive on the international market.

The port's difficulties at present stem from the relative shallowness of the long approaches to Bahia Blanca, the lack of manoeuvring and anchorage space in the port area and through the access canal having a depth of only 38 feet at low tide. Large grain ships can therefore only enter and leave on favourable tides.

The project envisages deepening the access canal to 45 feet involving the removal of an estimated 36m cubic metres of sand and consolidated materials from the sea bed.

Local dredging companies complain they were not invited to tender for the contract and were told that all negotiations were being dealt with at a government- to- government level between Argentina and the Soviet Union.

Negotiations with the Soviet Union are at an advanced stage but according to the Soviet Embassy in Buenos Aires, agreement has still to be reached over the final price tag and financing of the project. The Soviet Union has offered financing over a ten year period at a 6 per cent interest rate and is apparently prepared to accept payment in grains.

Negotiations have been further complicated however by the resignation on Thursday of Argentina's Minister of Public Works and Services who would be ultimately responsible for the execution of the project. The new minister is reported to have closer political ties to President Raul Alfonsin, but it remains to be seen whether this will have any influence on the outcome of the tendering for the Bahia Blanca project.

An official visit by President Alfonsin to Japan later this month, aimed at promoting Japanese investment in Argentina, has raised speculation that the Soviet bid may yet fall through.

The Soviet Union is especially anxious to win the contract, in order to reduce its large trade deficit with Argentina. Moscow plans to import 4.5m tons of maize and soya beans per year from Argentina over the next five years under a trade agreement signed in January. At present market prices this is worth some $400m.

Argentinian imports from the Soviet Union however are still less than $100m per year and well below Soviet expectations. The Soviet Union remains the most important market for Argentinian grains but a steady decline in Soviet purchases over the past four years has begun to worry Argentine grain farmers and traders.

Frank Gray on a successful wine for tea barter deal with Yugoslavia

Small countertrade can be beautiful

WHEN MAJOR exporters of equipment or commodities are confronted with a countertrade requirement from their customers, they can almost always turn to an experienced trading organisation specialising in barter to help sort out their problems.

This is most true in the case of multinationals, which often maintain their own in-house countertrade units to ensure that a viable deal is eventually concluded.

But when a small organisation, accustomed to receiving cash for goods is hit with a countertrade offer, the disruption to the company's way of doing business can be dramatic.

Such a challenge was recently hurled at Mr Michael White, chairman of the Sersfield Trading Company, a London-based concern with long experience selling Assam tea for cash to customers in the UK, Eastern Europe, the Middle East and Africa.

Some 60 per cent of the company's annual turnover of £3.8m comes from abroad, and Yugoslavia is its most important foreign customer. The sale of tea to that market has been growing sharply in recent years, riding on the tail of the tourism boom generated by British travellers to the Adriatic.

Not surprisingly, the countertrade gauntlet was thrown down by Voce, the Yugoslav state trading organisation. Facing a shortfall in hard currency to pay for Sersfield's growing volume of tea shipments, it proposed part payment in local products, one of which was Yugoslavian wine.

Mr White, in a recent interview, said his first reaction was to refuse the proposal outright. But on weighing the importance of maintaining trade ties with a traditional customer, against a cutback or even a termination of busines, he agreed to conside the barter option.

The proposal required several trips to Yugoslavia and visits to numerous wine estates where, he admitted, the quality of production appeared to match vineyards in Western Europe. He accepted an initial trial shipment of 100 bottles comprising six different brands.

Through his own contacts in the drinks trade he was able to ascertain that the bottled product received in London was as good as that sampled on site.

Since agreement in principle had been struck, the next step was to sort out contractual details, far more complex than the simple trading of tea for hard currency to which Sersfield was accustomed. Such advice was forthcoming from the counter-trade division of Barclays Bank and National Westminster Bank in London, and the Trust Bank of South Africa.

His next action was to market the product in the UK: Mr White's experience in sales and marketing gained from previous positions with BAT and Gillette in the UK provided the entree to distribution in the UK and Ireland. He was helped by Grants of St James's and Hatch Mansfield, the UK drinks merchants.

In the 18 months since the Yugoslavs made their initial proposal, Mr White's attitude has turned from reluctance to enthusiasm. This year, Sersfield will handle around £1m in Yugoslavian wine, some 20 per cent of which will be sold through the Dublin-based Superquinn supermarket chain. A total of 12 brands are on the market.

Yugoslavian wine does not enjoy the preferential tariffs of wines produced within the EEC, but the overall production cost is lower and Sersfield is able to sell it at less than £2 per bottle. Given the surge in UK wine consumption in recent years, the wine is as good as cash.

The apparent security of the market, however, is not without its pitfalls. With some amusement now, Mr White recalled his recent emergency visit to Dublin to allay the fears of his Irish customers over the tainted-wine scandals of recent months that hit the wines of Austria and Italy.

Mr White's experience with Yugoslavia has led to other barter deals and proposals. Sersfield recently agreed to take a small supply of Polish fruit wines, negotiated with the Argos state trading organisation.

These are being bottled, labelled and boxed in the UK in wine kits, complete with Irish crystal glassware from Galway. Sersfield is considering similar wine-for-tea offers from Malta and Bulgaria.

Mr Michael White, chairman of Sersfield Trading — an unexpected demand to set up a barter deal led to other countertrade business

SHIPPING REPORT

Tanker recovery may be short-lived

By Andrew Fisher, Shipping Correspondent

TANKER RATES stayed firm last week but the market was given a strong warning that the marked improvement of recent months could be short-lived.

Fearnleys, the Norwegian shipbroking firm, said that some words of caution were necessary to prevent the market, which has recently been stimulated by lower oil prices, from becoming overheated.

With a number of short-term fixtures from the Gulf providing owners with a return of up to $2m per voyage above operating expenses, some buyers were now willing to pay more than twice as much for a VLCC (very large crude carrier) as the second-hand values of only a month ago.

"It seems appropriate to pour some cold water over the most anxious buyers," Fearnleys commented sternly. "There is still a considerable surplus of VLCC tonnage and sales for scrappings of such vessels are insignificant."

The actual VLCC and ULCC (ultra large) surplus—the former are ships of 200,000 deadweight tons and over, with ULCCs exceeding 300,000 dwt—was at least 30m dwt.

Thus, the market still needed a considerable increase in the present volume of oil movements by sea to eliminate this surplus. Fearnleys said that it did not, however, foresee such a large growth in demand.

Also, with lower oil prices causing oil companies and other buyers to fill up their storage facilities during the present rise in the market, a reduction in demand could occur soon.

Current levels of about Worldscale 45 for VLCCs from the Gulf to the West compare with Worldscale 22 a year ago.

But the picture in the long-depressed dry cargo market remains a sorry one. Denholm Coates, the London shipbroker, reported that the grain rate from the US gulf to Japan was $8.20 a ton. A year ago, the rate was $14 a ton.

Escort 'remains top selling car' for fifth year in a row

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

FORD CLAIMS that its Escort was the world's best-selling car in 1985—for the fifth year in succession.

The company says Escort sales reached 923,000 last year or 40,000 more than its nearest rival, the General Motors model sold as the Opel Ascona in continental Europe, the Vauxhall Cavalier in the UK, Monza in Brazil and Camira in Australia.

Ford also suggests its "F" series pick-up truck retained its place as the world's best-selling commercial vehicle with production of 640,000 last year placing it, fourth overall in the world rankings for either car or truck.

Nearly every "F" series pick-up is sold in North America where the vehicle is frequently bought for personal transport and is substituted for a car.

Ford says production of the Escort during 1985 was 901,000, second only to the record of 908,000 established in 1984. The model is produced in the UK, West Germany, Spain, Portugal, Canada, the US and South Africa.

Since it was launched as Ford's first "world car" in the autumn of 1980, production of the Escort has reached nearly 5m.

It has been Ford's best-selling car in Western Europe for the past five years and in 1985 its sales of 402,000 put it in sixth place in Europe, behind the Volkswagen Golf, Fiat Uno, General Motors' Opel Kadett/Vauxhall Astra, the Peugeot 205 and the Renault 5.

WORLD'S BEST SELLING CARS IN 1985

Make	Sales
1 Ford Escort	923,000
2 General Motors Ascona/Cavalier	883,000
3 Volkswagen Golf	778,000
4 Toyota Corolla	732,000
5 Fiat Uno	587,000
6 General Motors Kadett/Astra	586,000

(* Totals inclue similar vehicles made under different nameplates. GM Ascona/Cavalier also includes the Monza in Brazil and the Camira in Australia. The VW Golf includes the Caribe in Mexico.)

Source: Ford

Total world-wide output of Ford cars and trucks during 1985 was 5.55m, placing Ford second only to GM of the US as the world's largest manufacturer of motor vehicles and more than 2m ahead of third-placed Toyota of Japan.

● Japanese car makers could boost their share of the West European car market to some 16 per cent by the early 1990s from 11 per cent last year and 7 per cent in 1980, a study prepared by the Economist Intelligence Unit Reuter reports from London.

The study on Japan's motor business said that one in five vehicles made in Japan is now shipped to Western Europe and with a falling dollar threatening earnings in the US, this percentage was bound to rise.

GM van sales, Page 4

World Economic Indicators

UNEMPLOYMENT

	June '86	May '86	Apr '86	June '85
US 000's	8,443	8,554	8,342	8,423
%	7.10	7.30	7.10	7.30
	May '86	Apr '86	Mar '86	May '85
W. Germany 000's	2,122.0	2,230.0	2,447.6	2,192.6
%	7.8	8.2	9.0	8.1
France 000's	2,317.9	2,371.6	2,394.9	2,282.6
%	10.0	10.2	10.3	9.8
Italy 000's	3,172.2	3,190.3	3,207.4	2,885.5
%	13.9	14.0	14.1	12.6
UK 000's	3,270.9	3,325.1	3,323.8	3,240.9
%	12.2	12.4	12.4	12.1
Netherlands 000's	685.8	697.9	725.0	737.0
%	12.2	12.4	12.9	13.0
Belgium 000's	481.7	490.6	504.7	528.5
%	11.7	11.9	12.2	12.8
	Apr '86	Mar '86	Feb '86	Apr '85
Japan 000's	1,820.0	1,830.0	1,640.0	1,570.0
%	2.86	2.72	2.55	2.44

Source (except US and Japan): Eurostat

UK NEWS

CONTROVERSY GROWS OVER EEC ANTI-DUMPING DUTIES

Paper industry hit by kraftliner row

BY LIONEL BARBER

ON February 14 this year, Mr Alistair Burt, Conservative MP for Bury North, rose in the House of Commons to speak about an apparently innocuous and relatively obscure paper product called kraftliner.

Mr Burt said that regulations concerning the payment of EEC antidumping duties on kraftliner were being widely breached, and he urged the government to look into the matter.

Around two months later, Customs & Excise officials made a snap raid on several UK corrugated box manufacturers – the principal users of kraftliner. Many other visits to other major manufacturers have followed as part of an investigation which has shaken the UK paper industry.

To some observers, Mr Burt's speech – made during a rare adjournment debate on the paper industry – and the Customs investigation are closely linked. By bringing out into the open what many in the industry had suspected for months, Mr Burt may have squeezed the trigger for an official investigation.

In fact – as Mr Burt conceded last week – he was acting as the mouthpiece for the British Paper and Board Industry Federation, many of whose members had been hurt by the downward spiral of kraftliner prices over the previous 12 months.

Kraftliner is the key raw material for the corrugated box and casing industry. The market is worth around £150m in the UK and the industry employs about 18,000 people in around 100 plants, according to industry estimates.

More important – at least for the federation's own membership – the price of kraftliner can have a knock-on effect on other types of paper, notably testliner, a porridge mixture of waste paper which serves as a rival, if inferior, product. This is precisely what occurred last summer when kraftliner prices hit their nadir.

Last year, kraftliner prices were being quoted in the EEC and the UK at around $260 or $270 a tonne. Explanations differ on who led prices down and why.

The (then) strong dollar, coupled with overstocking by users after the third proposed price increase for suppliers inside a year, are cited by kraftliner buyers. Further, Sweden, a major kraftliner supplier, devalued its currency, the krone.

The question of who started the discounting which forced prices in the market below the EEC minimum intervention price of $333 a tonne is far more controversial. One theory is that Swedish producers elected to break their voluntary undertakings to the EEC not to sell below $333.

But UK agents for the Swedes deny this and point the finger at Cellulose du Pin, the sole French and major EEC producer. "The irony is that the French pushed for the anti-dumping legislation in the first place," said one sales director acting for the Swedes.

Falling kraftliner prices forced the US producers – among them Great Southern Paper, St Regis Paper, and International Paper – to react, kraftliner buyers said. The problem for the Americans was that they were the only world producer legally liable to the EEC's dumping duties. "Their products were subject to duty and yet they knew they could not afford to stay out of the market," said one major purchaser of American kraftliner.

The reason lies partly in the nature of kraftliner production. The paper mills are so capital intensive that it is imperative that they run to capacity. "At 95 per cent capacity you are breaking even and every 1 percentage point above that you start making a lot of money," said Mr Michael Howard, director of the British Fibreboard Packaging Association. "But at 92 per cent capacity, you lose money."

Conversely, there was no way that the association's members – the major users of kraftliner for the corrugated box and casing industry – could afford to ignore their US suppliers. Three years ago, the Americans held around 60 per cent of the UK market and last year it was still 40 per cent. "They could not cut themselves off just to take a cut-price offer from the Swedes or the French," one UK importing agent said.

But the offer of discounts by all major producers presented a dilemma for UK users of kraftliner. If they accepted the discounts, then they faced paying the outstanding difference between the market price and the EEC minimum intervention price of $333. At a price of $270 a tonne, for example, the levy payable to Customs would be $63.

On the other hand, if they recorded the actual selling price of $270 at $333, then they could avoid the EEC levy. At the same time – and here is the twist – they would pay a slightly higher duty to Customs because of the higher recorded price. Some companies may have judged the trade-off between paying a (then) 7 per cent duty and avoiding the EEC levy was to be a risk worth taking.

The British Paper and Board Industry Federation (BPBIF), worried by the slump in paper prices and the way in which the anti-dumping legislation appeared to be being flouted, encouraged an official government inquiry. Once again, the result was totally unexpected.

Mr David Peacock, director of the BPBIF, said the federation had understood that the importers themselves were not responsible for paying the EEC levy, rather it was up to the suppliers who, after all, were offering the discounts.

This does not appear to be the case. Hence the federation may have helped prompt an inquiry which could harm its very own customers in the corrugated box industry. "It is an unfortunate position," said Mr Peacock last week.

The federation, along with kraftliner users and producers, has meanwhile succeeded in persuading the EEC Commission to review the anti-dumping legislation, just as kraftliner prices have recovered to around $400 a tonne.

One sales director for a big Swedish producer said last week: "I think everyone has lost sight of what is going on. This is the mess you get into when you try to interfere with market forces with artificial devises like anti-dumping rules."

Allowance outstrips inflation

BY JAMES McDONALD

LONDON SALARY weighting payments have risen over the year to last May by an average of 4.3 per cent, with a 5.7 per cent increase for inner London, according to the latest annual report from Reward Regional Surveys. This is above the May inflation rate of 3 per cent during the year.

The Reward report, based on data from 153 companies, points out that, despite these increases, the amounts paid are well below the actual cost-of-living differences between the inner London area and the UK average.

The annual median weighting payment increase over the year to May for all London was £876, a 4.3 per cent rise, and for inner London, £1,260, a 5.7 per cent increase.

But the actual cost-of-living difference between the London inner area and the UK average was £2,534 on the basis of Reward's January cost-of-living survey.

"It is felt only fair that individuals should pay something towards the capital appreciation on house values," says the report. "As these are rocketing around London, this is a topical subject. Our latest figures show house prices in the London area have risen 18.9 per cent over the year and 14.8 per cent in the southeast outside London. This compares with an average 10.3 per cent increase throughout the UK."

A majority, 85 per cent of the survey companies, have reviewed their London weighting payments within the last year, but there are some weightings still operating that were set as far back as 1979.

The opening of the M25 ring road is having an increasing effect on salaries, house prices and additional payments like London weighting, says the report. "Most companies are watching this carefully, although some have already moved their outer London boundary to the M25."

Lord Barnett may head BBC

By Raymond Snoddy

LORD BARNETT, the former Labour Cabinet Minister, is favourite to succeed Sir William Rees-Mogg who is due to retire as vice chairman of the BBC board of governors.

If Lord Barnett's appointment is confirmed it could shift the balance of power in the board more towards the centre.

At present both the chairman, Mr Stuart Young, and Sir William are seen as having Conservative instincts.

As well as making the board more politically representative Lord Barnett could strengthen its financial expertise.

Employers deal blow to profit-sharing scheme

BY ROBIN PAULEY

THE GOVERNMENT'S favoured way of introducing profit sharing into pay packets has been dealt a severe blow with its overwhelming rejection by employers. It has already been given icy reception by many employee unions.

The Confederation of British Industry (CBI) canvassed the views of more than 1,000 members who overwhelmingly rejected the scheme put forward by Mr Nigel Lawson, the Chancellor of the Exchequer. Mr Lawson wants 80 per cent to 90 per cent of an employee's pay set by negotiation and the other 10 per cent to 20 per cent tied to profits.

The CBI rejection caps mounting opposition from employers and trade unions. It probably means Mr Lawson will have to change the emphasis of his discussion document on the subject, due this month, to take more account of an alternative scheme which has been urged by a number of senior ministers.

Instead of being a fixed proportion of pay to profits the alternative scheme would link only pay rises, rather than total pay, to profits.

The CBI initially welcomed Mr Lawson's idea, saying it would introduce some much-needed flexibility into pay setting. But the detailed survey produced a long list of objections to the scheme:

● The unwillingness of companies to link pay purely to profit if they cannot take into account other factors. These include exchange rate movements which affect profitability but have nothing to do with employee performance.

● Fears that unions would press for greater industrial democracy and insist on access to sensitive company information to check profit calculations.

● The impracticality of negotiating over base pay while profit-related pay was determined separately.

● The increased rigidity it would bring to the labour market as employees resisted new recruits, preferring to share the higher profits among themselves.

● The difficulties in creating profit and loss accounts if profit-sharing schemes were set up at operational unit level, as Mr Lawson wants, rather than at company level.

Employers also felt that the scheme would not attract workforce support because it required them to put too much of their basic pay at risk each year, an objection also widely voiced among trade unions.

It is the fear of employee rejection which caused some of Mr Lawson's supporters to look for an alternative. Under their scheme only the amount of the annual rise is linked to profitability and the core wage remains safe. They calculate that over two or three years the overall effect of the two schemes might remain the same.

Mr Lawson is keen to introduce a tax incentive to encourage profit-sharing schemes. It is clear that the tax relief would go to employees although some companies argue it should go to the employer.

Either way, some CBI objectors noted that tax relief would create unequal treatment between those who could introduce such arrangements and those who could not, either for practical reasons or because they are non-profit organisations.

Oil chief calls for easing of tax burden

By Maurice Samuelson

A NORTH SEA oil industry spokesman called at the weekend for "essential" tax changes to prevent the slowdown in new developments caused by falling oil and gas prices.

Mr Christopher Ryan, director of the British Indigenous Technology Group (Brit), which represents 90 UK-owned companies with a stake in the oil business, also called for British companies to receive a bigger share of new developments than the 65 per cent they were now winning.

In his call for tax changes, made during a speech to businessmen in Scotland, he said investment decisions increasingly assumed that there would be a long period of low and fluctuating oil prices and that in the current tax structure new developments were not attractive. He listed three ways of easing the industry's tax burden:

● Incremental developments on existing oilfields should be considered as new fields for tax purposes. This would supplement falling production, provide contracts worth £1.4bn mostly in the next two or three years, and immediately benefit the drilling industry.

● The Petroleum Revenue Tax (PRT) ring around fields should be dismantled, making the cost of new field developments allowable against the tax arising on existing fields. This would reduce the risk element in new developments.

● The repayment of Advanced PRT (levied when oil was twice its current level) should be brought forward, in an effort to ease the cash flow of companies involved in less profitable fields.

However, the benefits of these changes to the UK would only be maximised if British-owned companies gained the bulk of the £4bn–£5bn contracts which would arise and not the 65 per cent share they were winning at present.

Skoda aims to regain lost ground

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

SKODA, the Czechoslovakian car group, hopes to celebrate the 20th anniversary of its UK subsidiary this year by regaining lost ground in Britain, its best export market outside the Comecon countries.

It expects to sell more than 11,000 cars compared with 9,884 in 1985 when its performance was badly dented by the impact of the miners' strike in some areas of the UK where it usually does well.

Skoda (Great Britain) was set up in 1966 by Motokov of Prague which took over from an independent importer which was selling a few hundred cars a year.

The company uses price as its major marketing tool – UK prices start at only £2,598 and go up to £3,810. Sales of Skoda's rear-engined cars in Britain have been volatile during the past 20 years.

For example, the company went through a bad patch after the UK Automobile Association severely criticised the cars' steering in 1978.

Skoda strongly denied suggestions that its cars fell below acceptable safety levels but agreed to take action to improve the steering and handling characteristics of all new vehicles exported to the UK.

The company has overcome that setback. Car magazine, for example, says that although the styling and interior are dated, Skoda models offer "spectacular value."

The London-based Skoda (GB) also imports Jawa/CZ motor cycles, Zetor tractors and Desta fork-lift trucks from Czechoslovakia.

The latest accounts to be filed, for 1984, reveal a pre-tax profit of £192,953 on sales worth £33.3m compared with a £588,073 profit and sales of £32.8m the previous year.

Skoda imports to the UK through its own purpose-built 18-acre preparation centre and parts warehouse in the Norfolk port of King's Lynn.

Containers which bring in replacement parts are refilled with British-made wheels, tyres and other components for export to Czechoslovakia where they are fitted to cars on the Skoda production line.

There are 280 Skoda car dealers in the UK, a large number by the standards of other importers selling about the same volume. "We keep it that way deliberately to make sure any Skoda owner can get service quickly and easily," says Mr Peter Titterton, the sales director.

Mr Titterton claims Skoda has "the most loyal bands of dealers and owners to be found anywhere. The marque appeals almost exclusively to the genuine private motorist and has introduced tens of thousands to their first new car – and had them coming back with repeat orders ever since."

Some of Skoda's rivals suggest that its customers frequently buy another Czech car because other manufacturers' dealers are reluctant to take Skodas in part-exchange except at rock-bottom prices.

Mr Titterton points out that "steady improvement rather than radical change has always been our policy. A completely new Skoda is a rare event. Instead, we concentrate on developing well-tried designs to give even better performance."

GM takes the lead over BL in van sales

BY OUR MOTOR INDUSTRY CORRESPONDENT

GENERAL MOTORS, the Bedford commercial vehicle group, pushed past state-owned BL to take second place in the UK new van market during the first half of this year with the help of vehicles built in Britain from Japanese designs.

GM – when it launched the Bedford Midi, based on an Isuzu van, and the Rascal, from a design by Suzuki – said it intended to take van market leadership. But it has some way to go to catch Ford.

According to Society of Motor Manufacturers and Traders' statistics, in the first half of this year GM sold 29,366 vans of all types, up from 16,938 in the same period of 1985.

BL's registrations slipped from 20,623 to 19,561 over the same period.

Ford's fell from 40,423 to 33,820. However, Ford this year has been short of its best-selling Transit medium vans while it has been phasing in production of the new-shape Transit.

Total commercial vehicle sales in June fell by 1.87 per cent to 21,298, which left the market down by 0.46 per cent at 149,968 in the first half-year.

Imports were running at near-record levels, accounting for 40.23 per cent of total registrations against 36.3 per cent in the January-June period of 1985.

Ford made a major recovery in the heavy truck sector (over 3.5 tonnes gross weight) last month because an incentive scheme reached a peak and dealers rushed to register vehicles in order to win the bonuses available. Several hundred Ford trucks were registered in the last two days of June.

This was enough to give Ford back the second place in the heavy truck market it lost recently to Daimler-Benz, the Mercedes group of West Germany. But Ford was not able to regain the lead it lost this year to Leyland, the BL offshoot.

In the first half, Leyland's registrations reached 4,931 (against 4,384 in the same period of 1985); Ford's sales were 4,278 (4,871) and Mercedes's 3,870 (3,309).

Ford's dealer incentive campaign helped lift total heavy truck registrations in June by 15.4 per cent to 4,524. For the first half, however, sales were down by 1.19 per cent

Stockbroking firm opts for market-making role

BY BARRY RILEY, FINANCIAL EDITOR

THE STOCKBROKING firm of Greenwell Montagu, part of the Midland Bank Group, is to terminate its agency role and will act only as principal in respect of institutional business in UK equities after the London Stock Exchange's Big Bang restructuring on October 27.

This is in sharp contrast to the intentions of most London broking firms, which expect to act both as agents (carrying out orders through other competing market makers), and as principals (taking positions on to their own books).

London's biggest stockbroking firm, James Capel, has in fact announced that it will act only as an agent and will not make regular markets in securities, although it will be willing to take stock on to its own books on occasion.

Greenwell Montagu – formerly W. Greenwell – has been discussing its plans with major clients for several weeks. It has put forward what it describes as a "unique approach." Its salesmen will only execute orders with Greenwell Montagu's own market makers, although the latter may then trade with other firms.

Mr John Finch, head of equity sales, said: "We feel it is necessary to be a market maker. The agency-only option is not on. Having decided that, there is no logical place to stop apart from a principal-only basis. We are going for a clean break because it is where the business will got to in the end."

But despite the emphasis on its market-making activity, the firm intends to charge a commission to clients. This, it claims, is merited by its commitment to offer what are described as the "best prices" to clients, and to give access to research and other services, such as a screen-based investment news facility.

The firm said its new approach did not apply to private client business, where it will continue to act on an agency basis in transacting small-scale orders.

Greenwell Montagu is one of the first of the big broking firms to make a clear statement of its policies for the new conditions after Big Bang. All firms have been urgently reviewing their options and attempting to sound out the opinions of institutional investors.

City watchdog membership faces shake-up

By Our Financial Editor

AN IMMINENT shake-up is planned of the membership of the Securities and Investments Board (SIB), the body which will be empowered by financial services legislation now going through Parliament to regulate Britain's investment markets.

As the SIB prepares to publish its first annual report next Wednesday, covering its preliminary year in which it has been establishing itself on an extra-statutory basis, officials at the Department of Trade and Industry and the Bank of England have been sounding out new candidates for appointment to the board.

It is intended that the new list of directors will be announced before Parliament rises around the end of this month.

The need to reconstitute the board arises partly from the decision made during the past year to abandon the separate Marketing of Investments Board which was envisaged at an early stage of planning the new regulatory environment.

The life of the existing Marketing of Investments Board Organising Committee (Miboc) under Mr Mark Weinberg will therefore be limited, and the composition of the SIB will need to give greater emphasis to life assurance and unit trusts, with which Miboc has been dealing separately.

It is understood that the aim is to increase the number of directors of the SIB from 10 to 16, in each case excluding the chairman, Sir Kenneth Berrill. Some existing members are expected to retire, so that the number of new directors will be more than six.

One priority will be to increase the number of lay members, who are not investment practitioners.

Under the proposed legislation, the selection of board members of the SIB is the joint responsibility of the Secretary of State for Trade and Industry, at present Mr Paul Channon, and the Governor of the Bank of England, Mr Robin Leigh-Pemberton.

Lamb sales improve after nuclear fears

By Stefan Wagstyl

LAMB PRICES have staged a marked recovery as shoppers' fears have receded about buying meat which might be contaminated by fall-out from the Chernobyl nuclear disaster.

The Meat and Livestock Commission said that wholesale prices last week rose by an average of 10p to 161p a kg, after plunging about 45p the previous week when the Government banned the movement and slaughter of sheep in parts of the country.

The commission said prices which had been 20p to 25p lower than might have been expected before the radioactivity scare were now broadly at the expected level for this time of year.

The commission said the number of lambs brought to market had also recovered – across the UK the total was up 5 per cent last week. In Wales, it was up by 20 per cent, with most of the gain coming on Friday after government bans were lifted in parts of north Wales.

The restrictions remain in force in other areas in north Wales, and in parts of Cumbria and Scotland until July 25.

The commission expected retail prices to recover somewhat this week.

Credit shift continues

BY WALTER ELLIS

THE securitisation of credit to UK companies, whereby borrowers issue marketable securities instead of obtaining interest-bearing cash from banks, is moving ahead rapidly, according to Mr Christopher Johnson, economic adviser to Lloyds Bank.

Writing in the July issue of Lloyds's Economic Bulletin, he says that the forthcoming Big Bang in the London Stock Exchange is more a consequence than a cause of the new trend.

Borrowers now find it easier to issue securities than to borrow from banks, and they need not be bound by the covenants often attached to bank loans, Mr Johnson writes.

"With securitisation, the risk shifts away from banks to non-bank investors, in so far as they can be persuaded to hold securities and banks can more quickly alter the composition of their asset portfolio by buying and selling securities rather than having to wait for loans to run off before replacing them."

Traditional bank lending has been supplemented by Bank of England commercial purchases and leasing, he adds. But both have declined in importance.

The main new development for British corporate borrowers, he suggests, has been the vast increase in their use of the Eurobond market. He calculates that Eurobond issues will provide UK participants with £4bn in 1986 – about ⅕ of their total external funding and an amount equivalent to bank lending or stock exchange issues.

Companies 'not facing serious pay pressure'

BY WALTER ELLIS

MANY leading businessmen say they are not under serious pressure to make excessive pay awards, according to a survey by the Institute of Directors (IOD).

The survey contradicts the views of several senior government ministers who have complained recently that UK pay settlements are rising out of line with improvements in company performance and profitability.

Three out of four businessmen questioned last month for the IOD's bi-monthly business opinion survey said their companies were not facing serious pressure on pay.

The most significant factor influencing pay decisions according to 56 per cent of respondents was "concern to motivate and reward employees." In second place came competitive pay pressures from other employers, followed by the influence of national agreements on pay and conditions.

Only 5 per cent of those questioned cited trade union pressure as the most vital factor.

Of the 24 per cent of business leaders who said they had experienced serious pressure to make unjustified pay awards, nearly two thirds said they had not yielded to such demands.

Mr Graham Mather, head of the IOD policy unit said the survey made it clear that senior businessmen in Britain now felt that their companies were being subjected to unreasonable pay claims. Fewer still, he claimed were giving in to such pressure when it arose.

The IOD also saw a growing concern among company managements not to lose skilled workers. Out of the 200 businessmen taking part in the survey, 17 per cent – the highest total for more than a year said labour supply was expected to be their main concern during the next six months.

Insufficient demand and cash-flow problems, however, remained the main concerns of most senior managers, with 47 per cent and 42 per cent of respondents respectively giving them top priority.

Industrial unrest came last with 1 per cent.

Prices of house-building sites continue to rise

BY JOAN GRAY, CONSTRUCTION CORRESPONDENT

THE PRICE of house-building sites in south-east England rose 27.3 per cent in the 12 months to April 1 this year, while the price of residential land in inner London rose 42.3 per cent, according to statistics from the National Council of Building Materials Producers.

The price of large building sites for flats or maisonnettes in the south east were an average £892,000 per hectare on April 1, while smaller plots cost £684,000 per hectare.

Large house-building sites in inner London cost £3.3m per hectare, and smaller sites cost £2.3m per hectare.

By comparison, large and small house-building sites in the north cost £190,000 per hectare, and showed an average rate of annual price increase of 7.9 per cent.

However, the report found that "even in low value areas the density of residential building is intensifying in order to minimise the infrastructure cost per unit."

The council also reported that a total of 7,305 ha of land in England changed to residential use in 1985.

More than half of this new land for housebuilding – 55 per cent – came from the rural sector and 45 per cent was previously urban land, including 23 per cent described as vacant land. A total of 46 per cent of the new house-building land in England came from agricultural use.

In the south east, of the 2,265 ha of land recorded as changing to residential use, 22 per cent originated as vacant land – principally city land that was previously developed and despoiled land requiring treatment before it could be developed.

Agricultural land accounted for 36 per cent of the new building land in the south east, other residential use 22 per cent and forestry 8 per cent.

● House prices in Britain rose by slightly more than 12 per cent in the year to June, according to a building society's index.

The survey by the Halifax Building Society fails to confirm signs of a slowdown in the house price boom reported by the estate agents' body, the Incorporated Society of Valuers and Auctioneers, last week.

The survey instead shows clear signs that the rate of house price inflation is continuing to accelerate.

UK NEWS

Andrew Fisher reports on some good news for British shipbuilders

Warship yards fight for orders

BRITAIN'S WARSHIP yards are in a precarious position. Barely out of the secure, though not always comfortable, embrace of British Shipbuilders, they are now fighting it out in a harsh commercial environment.

Naval orders are harder to come by, as the government seeks to curb spending. Projects are delayed or curtailed and negotiations on price and terms have become tougher. So the news emanating from Whitehall that three new Type 23 frigates are likely to be ordered soon has given some yards a timely fillip.

But as with merchant shipbuilding, there are too many yards chasing far too few orders. Four UK yards have been in the race for the £120m frigates; only two have been successful, at least for the moment.

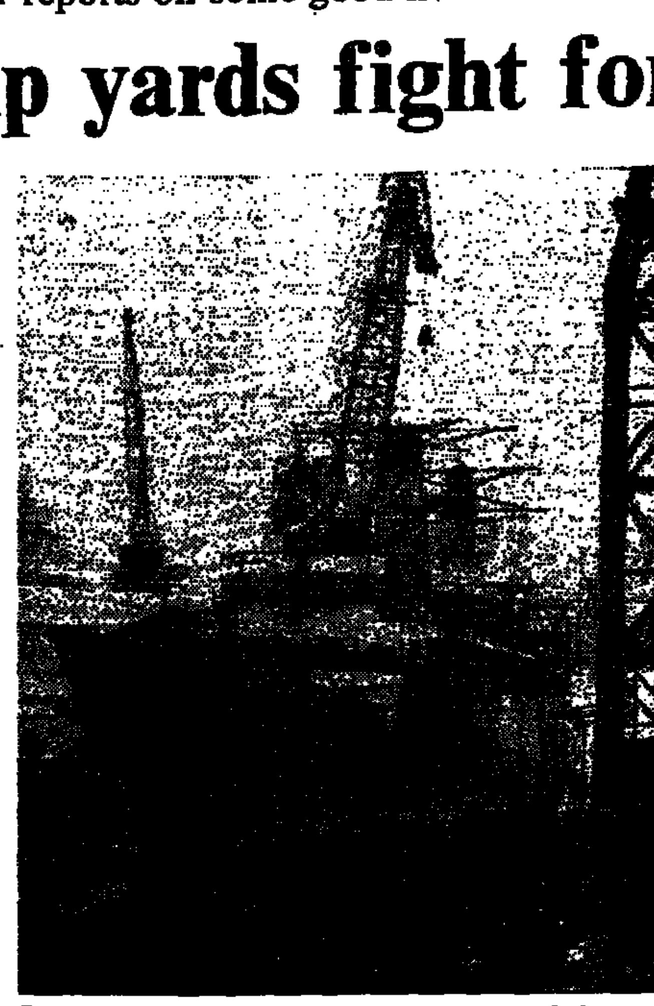
Yarrow on the Clyde, now a subsidiary of General Electric Company (GEC), looks likely to receive two frigate contracts and Swan Hunter on the Tyne a third. Left out in the cold are Vosper Thornycroft in Southampton and Cammell Laird on Merseyside.

With the orders yet to be formally announced, yards are coy about prospects. But Mr Peter Usher, managing director of Vosper, admits: "We are not delighted." As well as being frustrated over UK hopes, the yard has been talking for several years on a possible £300m-plus order for three frigates from Pakistan.

This, too, is looking less likely as time passes. Pakistan's political scene has become more fraught after the return there of Miss Benazir Bhutto, daughter of Mr Zulfikar Ali Bhutto, the former Prime Minister executed by President Zia seven years ago.

Export opportunities like Pakistan are rare, though Vosper has distant hopes of Greece, New Zealand, Algeria and Indonesia. And they are keenly fought. Though Vosper has a letter of intent from Pakistan, which would build one of the frigates in Karachi, West Germany's Blohm und Voss is also keen for the business.

"We're not giving up our frigate-building activity lightly," asserts Mr Usher. "We're in there fighting." But the yard built none of the last generation of Type 22 frigates and has so far not been chosen to construct one of the lighter, cheaper and more sophisticated Type 23s.



Swan Hunter, one of Britain's work-hungry warship yards, is set to win a Type 23 frigate order soon. Pictured here is HMS Sheffield, one of two earlier Type 22 frigates, at the Tyneside yard. The keel of a third was laid in May.

Without more work, Vosper will clearly have to cut its 2,800-stong workforce, already down sharply in the past few years. For Yarrow, the Type 23 orders will provide security for the yard's 4,300 jobs, around 1,000 of which would probably have had to go otherwise.

"We need one (Type 23 order) pretty desperately," says Mr Eric Smith, industrial relations director of the Clydeside yard "We'd obviously like two." Like Vosper, he says the yard has still to hear from the government on its decision.

GEC is expected to invest £10m in a new covered building hall for its yard, for which it paid £34m just over a year ago, if it wins the Type 23 work. Yarrow is already building the prototype and would thus hope to produce the next vessels more cheaply and efficiently.

With a covered hall, Yarrow could use merchant-building techniques involving pre-assembly of large blocks. As much of the advanced outfitting work would thus be carried out at an earlier stage, up to 12 months could be sliced off the present building time of some four years.

Cammell Laird, now part of Vickers Shipbuilding, is using such modular construction methods for the Type 22 frigate it was awarded back in January 1985, when Mr Michael Heseltine, then Defence Secretary, rewarded the Birkenhead yard for its stand against militant pickets in 1984.

But Swan Hunter lost out as a result. To soothe its wounds, it was promised a Type 23 order. It is this vessel which the government now seems ready at last to confirm, after strong lobbying by local MPs and great patience by the yard itself.

This year has been frustrating for Swan, which left the public sector five months ago in a City-backed buy-out. It lost a fiercely fought £120m order for an auxiliary oil replenisher (AOR), designed to support the Type 23 fleet, to a consortium of Harland and Wolff of Belfast, Yarrow, Racal and the Yard design company.

It then declared 825 redundancies. But the Harland team has to meet stringent conditions on the contract, with severe penalties if it fails.

Clutching its funds most closely is the Ministry of Defence. It was expected to order two AORs this year and four later. But the second has been deferred. Swan will have a chance to tender for this.

So despite the likelihood of more frigate orders, yards are still scrambling for work. Cammell Laird has won £300m worth of submarine orders, but wants more business to supplement this. Swan needs more than one Type 23 and hopes to break into the difficult export market.

Vosper, which went private in an £18.5m management buy-out, has not wholly given up hope on Pakistan. Mr Usher will fly there soon to assess the contract's fading chances. "With the deal taking so long to pull off, it must be in some sort of jeopardy. Our fingers are firmly crossed."

He is hoping the UK Government will approve a new class of £25m minesweepers of which Vosper is now building the first in glass reinforced plastic, a material in which it specialises. It built 11 of the previous class, with two built by Yarrow, which will also compete for the new ones.

If Vosper wins the Pakistani and minesweeper work, it will need about 1,000 more workers, still leaving it well short of the 5,800 from which it has fallen since 1982. Yarrow will need two frigates a year to maintain its labour force. Concludes Mr Hunter, not just referring to naval work: "It's a rotten slide we're all on at the moment."

Contracts & Tenders

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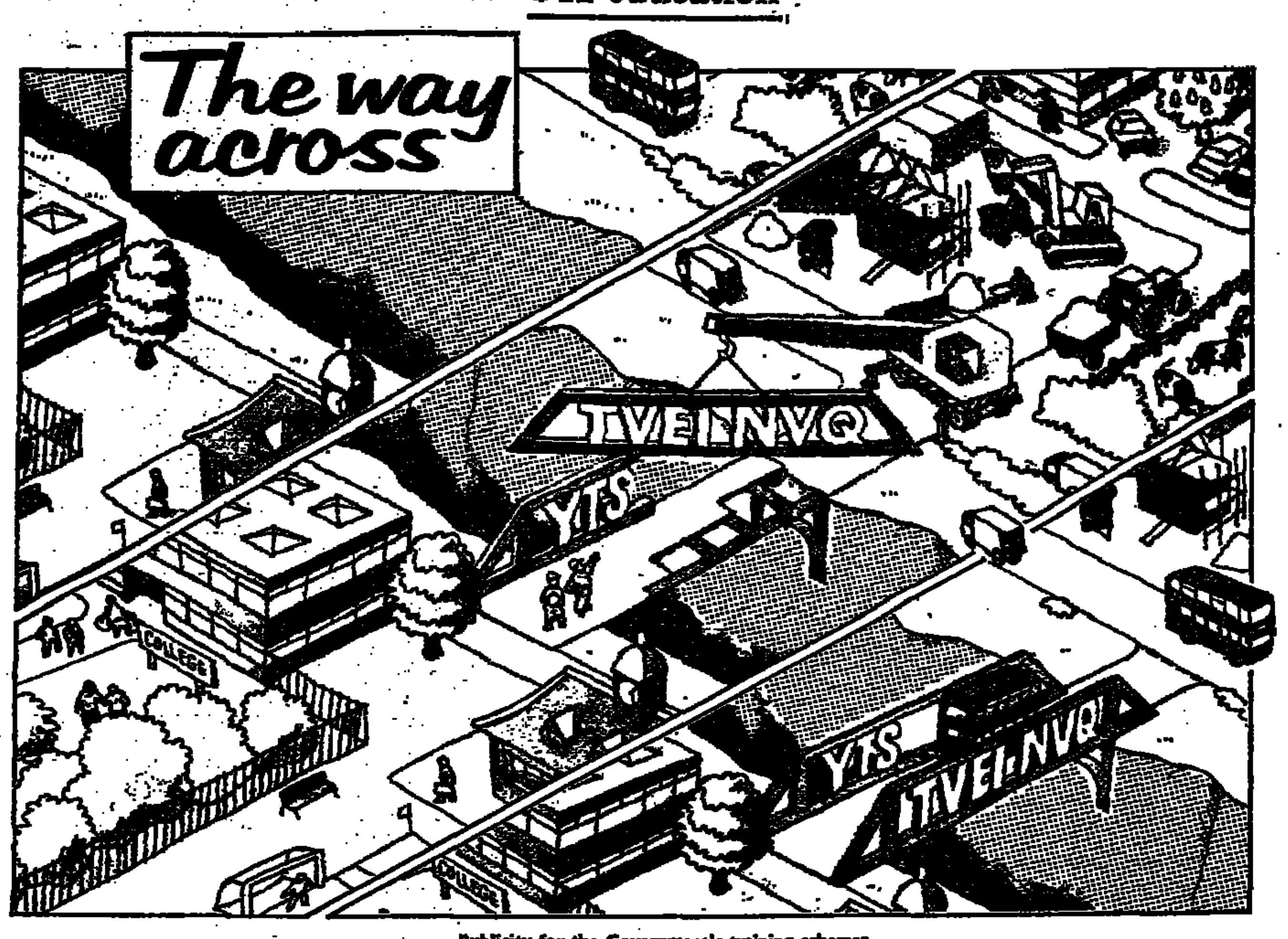


Publicity for the Government's training schemes

A practical proposition

By Alan Pike, Industrial Correspondent

LORD YOUNG, Employment Secretary and a late-developing politician with an acutely professional touch, appeared at a press conference to announce the Government's plans to reform technical education wearing a vivid yellow badge and an equally bright smile.

The badge symbolises what the change is all about. It was made by pupils on a Technical and Vocational Education Initiative (TVEI) project — the scheme for giving 14-18 year olds a more practical schooling. The Government announced last week its plans to extend the programme to all secondary schools.

His smile can be presumed to reflect satisfaction that progress is at last under way in changing the curriculum in Britain's schools and colleges, with his own Department of Employment taking a leading role.

Lord Young devised the idea for TVEI four years ago, when he was chairman of the Manpower Services Commission (MSC), as a way of making the school curriculum more relevant to the world of employment. The MSC is a public agency run by employers, unions and education representatives.

The initial pilot projects were launched in 1983 through the MSC rather than the Department of Education and Sciences (DES) — primarily because Ministers believed that the MSC was more likely to make speedy progress. Local authority control of education and the indirect method in which universities are funded has put the DES in a weak position when it comes to initiating action. Educators, and even the DES itself, are seen by many Ministers as invariably preferring lengthy discussion to experimentation.

There were suggestions when the TVEI pilot projects started that, having got the experiment off the ground, the MSC would hand the scheme over to the DES. But last week's education and training White Paper said the MSC would administer the plan to take TVEI national.

Since launching the project, the MSC has also been given an important role in financing further education in local authority colleges—a move intended to strengthen the link between the courses offered by colleges and the actual training needs of industry.

Last week's White Paper also made public a further coup for the Department of Employment. Lord Young has been named as the Minister who will "have the lead responsibility" for appointing a new National Council for Vocational Qualifications, and for its day-to-day administration.

The council is designed to bring Britain's confused system of vocational qualifications and certificates within a single clearly-understood, framework. Mr Oscar de Ville, formerly deputy chairman of BICC and now with Meyer International, has been named as chairman, and Lord Young's lead responsibility can be expected to ensure that *industrial interests are strongly* represented on the council.

All these moves are part of an increased central involvement in the curriculum. Although TVEI schemes are designed by local education authorities, they have to meet criteria set by the Manpower Services Commission. The purpose of the MSC's activity in local authority further education is to stimulate courses which meet market needs. But the developments also represent a distinct change which is taking place in the Department of Employment under Lord Young's tenure.

The inside cover of last week's White Paper lists the objectives of the Department of Employment. "Encouraging the development of an enterprise economy" is identified as the department's prime aim, with the objectives going on to talk about the promotion of small businesses, self-employment, tourism, training and cutting business red tape as means of achieving this. Industrial relations—for so long the staple diet of the old beer-and-sandwiches Ministry of Labour—receives only a single line mention.

With the Government's industrial relations reforms on the Statute Book, the department is fast changing shape and concentrating on its new priorities. Visitors to the Secretary of State's office encounter "Please Take One" boxes of booklets containing details of some 30 employment and training schemes being run by the department and its direct-action arm, the MSC.

When Lord Young became chairman of the MSC in 1982, he soon concluded, like others before him, that Britain's laggardly industrial training system could not be changed in isolation from the education system. It was against this background that he devised TVEI and began the excursion of the MSC and Department of Employment into educational reform.

Lord Young's yellow badge made by TVEI pupils did not come from a course in badge-making, but one teaching the financial, commercial and marketing aspects of running a small business.

School businesses have become common features of the TVEI pilot projects, along with other developments uncommon in more conventional classrooms. School children in Clywd, Wales, have become the first in the country to study robotics at O level. Courses on fashion and textile design are established in Newcastle. Design and entertainment studies, complete with a £100,000 studio in a converted cinema, are available to TVEI students in Barnsley. A food *studies course* has been designed in Bedfordshire. Marine studies and holidays and leisure courses — including visits to Holland on a roll-on/roll-off ferry—have been introduced in Norfolk. Industrialists work with teachers in curriculum development.

TVEI will be running on a pilot basis in all but 18 local education authority areas by September, and under the expansion announced in the White Paper will eventually be available as an option for 14-18 year olds in every secondary school in the country.

The official criteria for TVEI say, among other things, that the scheme is intended to "prepare the student for particular aspects of employment and for adult life in a society liable to rapid change."

These criteria have given rise to some fears that the high tech, glossy image of TVEI may conceal old-fashioned, narrow job training. Critics believe the initiative will reduce young people's options and educational horizons at the age of 14, and become a covert means of re-introducing selection within the comprehensive system—the bright pupils preparing for higher education, the others getting job training on TVEI.

Such suggestions are rejected as strongly by TVEI teachers and young people taking part in the initiative as they are by Lord Young and his colleagues.

But no attempt is made to deny that TVEI is intended to bring education and industry closer together, and break down the traditional pre-eminence of the academic over the practical in the British school curriculum. of the young people now taking part in TVEI would attend strongly work-related vocational schools from the age of 14.

Many TVEI teachers — like Youth Training Scheme instructors — have been impressed by the extent to which a practical, problem-solving approach can stimulate young people's

Many educationalists involved in the TVEI pilot projects would agree with the White Paper's grand sounding judgment that the scheme is "one of the most significant broadenings of the schools curriculum this century."

If successful, it should also help in the coming years to tackle skill shortages in advanced technology sectors of industry. But another skill shortage has to be overcome first — the biggest threat to the national development of TVEI is a severe shortage of mathematics, science and craft teachers.

Chinese walls may be too thin

COUNT DOWN DAYS TO BIG BANG 112

By Barry Riley

DECLARATIONS of independence crop up not only in American colonies but also, oddly enough, in the London stock market.

The independence being so declared at present is that of the market making arms of the newly-formed securities groups from their corporate finance departments. Effective independence is vital if they are to receive permission from the Takeover Panel to sustain their market making operations at times of takeover bids involving client companies.

But although this may be an adequate approach during the current interim stage of the London securities market's development—the big groups can own market makers, but must not integrate them with the distribution side—it is not going to be sufficient after Big Bang.

Conflicts of interest are already familiar in the London securities scene, but the absorption of the jobbing function within broader firms adds some new variations on the theme. In particular, firms which make markets in the stocks of corporate clients will need to erect very thick Chinese walls between their traders and their corporate finance departments.

In fact some firms have thought very hard about whether they should attempt to make markets at all in the stocks of companies to which they act as close advisers. There is inevitably a risk that actions by their traders could be misinterpreted, even when no insider information has passed between departments.

However, the logic of the new system is clearly that market making is an integral part of of the range of activities of the new multi-service firms. Small companies, for instance, will normally expect that their sponsoring advisers will provide a reasonably liquid market in their shares—and other market makers may not readily volunteer because the pickings would be *too* lean.

For bigger companies, lack of eager market makers will not be a problem, but it will be vital for investment firms to keep closely in touch with the markets in clients companies' stocks in order that they can advise on issues and have the necessary distribution capability.

Since the problem cannot be avoided, it must be tackled head on and foolproof systems developed. "We have not finalised our ideas, but by October we have to be entirely clear in our own minds," says one of the leading prospective market makers. "We can't afford to leave any grey areas. We have to be absolutely white."

The Takeover Panel's interim guidelines provide that so long as the market making operations sign declarations saying they are being run in a fully independent manner, they will be given a kind of exempt status. That is, they will not be regarded as acting in concert with parties involved in the takeover and will not be required to disclose their holdings.

After Big Bang, however, quite different rules will have to apply in takeovers. The key question is whether the Panel will opt for the New York system of a restricted list which circulates within a firm and imposes limits to be applied to market making in sensitive stocks.

The restriction could amount to an outright ban, or a tight constraint on the volume of business permitted. Most market makers instinctively reject the latter however, and there is also the problem that in a major bid it would be possible for three or even more of the strongest market makers to be effectively cut out, because they all had corporate client involvements. That might seriously restrict the liquidity of the market, to the disadvantage of investors.

Rightly or wrongly, firms with big corporate client lists could end up being penalised, although there would be swings and roundabouts. They would hope to pick up business diverted from restricted rivals in bids in which they were not themselves involved.

At any rate, the Panel is bound to be concerned with safeguarding its concert party rules, and some awkward decisions are going to have to be taken in this area.

The sudden imposition of restrictions, after all, could be very embarrassing for a trader stuck with a large open position which he was unable to unwind. But maybe that it just one of the risks of the game. If he were given a discreet advance warning of a bid or new issue and allowed to retreat gracefully the competing market makers would soon spot what was happening.

In other areas the arguments are rather simpler. When there is a rights issue, say, the Chinese Wall will have to stay absolutely impenetrable and the house market maker will have to take his medicine along with the rest of the market.

For the big groups these barriers to the internal flow of information ought not to be a problem. There are complex security systems to keep the various teams of specialists apart, and the largest groups can even afford to install separate banks of lifts to serve different functional areas.

It is a little more difficult to see how the rules could be applied so rigidly in small firms, where individual practitioners may wear several different hats. Arguably investors will have to be warned that lower standards may apply down among the gamma stocks.

Inevitably there will be breakdowns. In May this year First Boston in New York paid a civil penalty of some $260,000 and gave up $132,000 in alleged profits on trading in the stock of a corporate finance client which announced an unexpected write-off.

Despite the problems, the system will have to be made to work in London. If it does not, and there are too many scandals, the whole basis of the new-style market will be in doubt.

MANAGEMENT

EDITED BY CHRISTOPHER LORENZ

The guru factor

Ancient wisdom with a novel twist

Michael Dixon, in the third of a series, traces the age-old routes of today's management ideas and discovers fresh avenues of thought

MANAGERS' LIVES are full of paper, but what is written on it rarely gets read. Time and again research has shown that they do not much like reading and writing. They speak and listen instead.

Only a sharp break in executive habits could account for the explosion in sales of *In Search of Excellence, The One Minute Manager*, and today's other chart-topping management books.

How their authors have overcome millions of managers' resistance to reading is, on the face of it, a mystery. They have certainly shifted away from the long-standing mainstream of business literature, which stressed the 'hard" attributes of management, notably structure, strategy and systems. Instead *they stress the "soft"Ss; style*, staff, skills and shared values.

But little of their guidance on improving executive performance seems essentially new.

Take, for instance, the idea which underpins their advice on the key task of managing people. It is that executives tend to have markedly different *attitudes towards the people* who work for them. Some expect to catch their subordinates doing things wrong, so they concentrate on preventing faults. They could be called controllers. The others expect to catch people doing things right, so they work to promote initiative. They might be called leaders.

While almost all today's top-*selling authors encourage* the leadership approach, they cannot claim credit for the underlying idea. The originators of the two contrasting views about the nature of working humanity were two men whose works have outsold the books of all today's management gurus put together, *not least because they* lived nearly 2,500 years ago.

The first was *Plato*, who taught that, apart from an elite *minority, men and still more so women* are by nature irresponsible and mostly need compelling to do anything positively worthy at all. The second was Aristotle, who saw people as naturally endowed with *potentialities* to do good things, which with guidance *and encouragement they could* realise.

Although Aristotle's version has the appeal of being optimistic, most management practice has enshrined the Platonic outlook. In western countries at least, organisations have tended to be set up on the principle that the bulk of people work best under close and detailed control.

The main modern theoretical *influence* behind that *tendency* was probably the concept of scientific management pioneered in the US by Frederick Taylor late in the last century. He argued that companies operate most efficiently if they break down their shopfloor work into repetitive tasks needing little training, *which can be carried* out quickly to standards that *are easily policed*.

Taylor's proposals chimed *well with the then prevailing* technology. People would inevitably find little intrinsic interest, let alone scope, for personal development in the simplified shopfloor jobs he advocated. But the so-called deskilling was tailor-made (so to speak) for the further advance of mass production.

Companies increasingly divided their employees into two castes. At the top a *minority of "thinkers"* were set to decide what should be done and how. *Their decisions* were handed down as detailed instructions to be followed semi-mechanically by a majority of well supervised "doers" below. The two-caste division was adopted by organisations outside manufacturing, in line with the simultaneously *spreading idea that the bureaucratic* approach to getting *things done was the highest* form of management achievable by humankind.

The same process also seems to have inspired a changed view of the role of executives. They were ranked among the thinking minority. But the growing body of theorists came to look on managers less and less as human individuals doing their jobs in the various ways they personally found best, and more and more *as standard cogs* in the higher workings of the *organisational machine*.

Indeed, soon after Taylor *formulated his principles of* scientific management, a Frenchman called Henri Fayol published a standard definition of what it is that managers do.

He said their work boiled down to just five essential functions: planning, organising, commanding, co-ordinating and *controlling*. And perhaps because the bulk of books on *management* have since been written by academics, who prefer ideas to be neatly packaged for examination by the intellect, the tendency to pigeonhole managerial activities has persisted to this day.

But not all the later theorists supported relentless machine-like control. Exceptions quickly appeared, one of the most prominent being the human relations school of the 1920s.

Its leader was Professor Elton Mayo of Harvard, who claimed that people work more productively when treated as *human beings and encouraged* not just with decent pay but with *pleasant working conditions*. The same theme was furthered by others, including Chester Barnard, a practising top manager who has had a strongh influence on some of today's gurus. In his view the *manager's prime task* was allocating a wide range of "*satisfactions*," both intangible and concrete, to persuade workers to put hearts as well as bodies behind their employer's aims.

In the 1960s the behavioural scientist Douglas McGregor, also an American, went still farther. He resurrected the opposed Platonic and Aristotelian out-*looks on human nature*, renaming them respectively Theory X and Theory Y, and argued that the pessimistic approach had ceased to be capable of motivating the citizens of advanced industrial societies.

He said they could no longer be made to work well for the purpose of *satisfying* merely basic needs such as those for *food, warmth and shelter*. They would respond only if their jobs allowed them to achieve successively higher satisfactions, initially by winning a respected place in society, and ultimately by realising their full potential for individually creative work.

McGregor was brandishing his optimistic torch at a time of steady economic growth and full employment, and he apparently took it for granted that the benevolent conditions would continue. But in the early 1970s, just when the more humanistic view seemed to be gaining ground through the "quality of working life" movement and the like, the western economic climate turned cold.

The effect was the adoption by many organisations of what *might* be called macho-management. Its guiding dictum is that *if executives have workers by* the short hairs, their hearts and minds will inevitably follow.

Today, many managers have grown disenchanted with an all-out macho approach. Which is one of the reasons why millions of them have been attracted to the more humanistic theses of the new gurus.

Another factor may be that, to western executives, a renewal of optimism has now become a necessity.

The closely controlled working practices which turned most managers, as well as subordinates, into cogs of some mass production machine are failing fast against eastern competition. Many European and US execu-*tives may well have decided that* any future they have must lie in different approaches which unlock and build on uniquely human abilities to innovate and tailor the product or service to the special wants of individual customers.

Another clue to the top-selling gurus' popularity is that their view of the very nature of management activity seems different from the way most pre-*vious writers saw it*.

Like both Plato and Aristotle, *most past management writers* evidently believed that the prime human driving force behind civilised progress is the rational intellect. They therefore tended to see the source of improved managing as lying in the academic-style working out of logical management theories, *which could then be* taught step-by-step to practising executives.

The result was usually an exaggeratedly tidy, pigeonholed portrayal of managers' activites on the lines of Fayol's definition of their five essential functions. That sort of portrayal did not and will never fit the reality, nor did it seem recognisable, *let alone helpful, to most people* working as managers.

For example, the stress of the job often sends them home fit to do nothing but slouch in a chair and complain to their spouses about the dreadful things they have gone through. But it would be an odd executive who opened the tirade by saying: "D'you know what's happened today? I've had an absolute bellyful of planning, organising, commanding, co-ordinating and controlling. . ."

Real managers talk about their jobs in much more human terms. The reason is that the work is fundamentally human in nature. It does not consist only, or even largely, of solving already identified problems by the application of logical processes based on quasi-factual knowledge, *as numerous* management writers apparently assumed in the past. *The key task* is usually to find out what problems might usefully be tackled in the first place.

Hence their typical preference for spoken words at the expense of the written variety. Their survival in the job depends on their knowing what is going on now, and conversations laced with questions and answers *yield information fast* and flexibly.

The best of the new gurus—such as Peters and Waterman, *the authors of "Excellence,"* still emphasise the value of broader and more factual information as well as logical thinking. But they seem at last also to have acknowledged the essentially intuitive aspects of good management in practice. By doing so, if in nothing else, *they can claim to have achieved* something new.

In endorsing intuitive action—by which they of course mean something poles apart from panic action—they may even have opened western doors to a touch of eastern philosophy.

The implication that executives are always wrong to act in intellectual ignorance of a situation, no matter how sharp their hunch or great their experience, is directly in line with western academic tradition. But Confucius viewed ignorance as a positive force, provided that people recognise where the inevitable gaps in their knowledge lie. It is impossible to be wise, he said, without being aware not only of what you do know but also of what you don't.

Many western leaders' mistakes—in politics as well as business—result less from ignorance of the real facts than from their ignorance of their ignorance. So a bit of *Confucian wisdom could be a great* blessing.

This is the third in a series of articles on business gurus. The first two appeared on June 30 and July 2. The fourth will be published next Monday, July 14.

Management abstracts

A Ten-point Guide to Buyout Success. T. Grundy in *Accountancy (UK)*, January 1986(2 pages).

Offers reasons for considering a management buyout and discusses questions which must be answered by participants in framing buy-out. The points include clearance before negotiations begin, for discussions with third parties (eg customers, work-forcee), team membership, drawing up a business plan, and negotiations with advisers, customers, suppliers, the vendor and financiers.

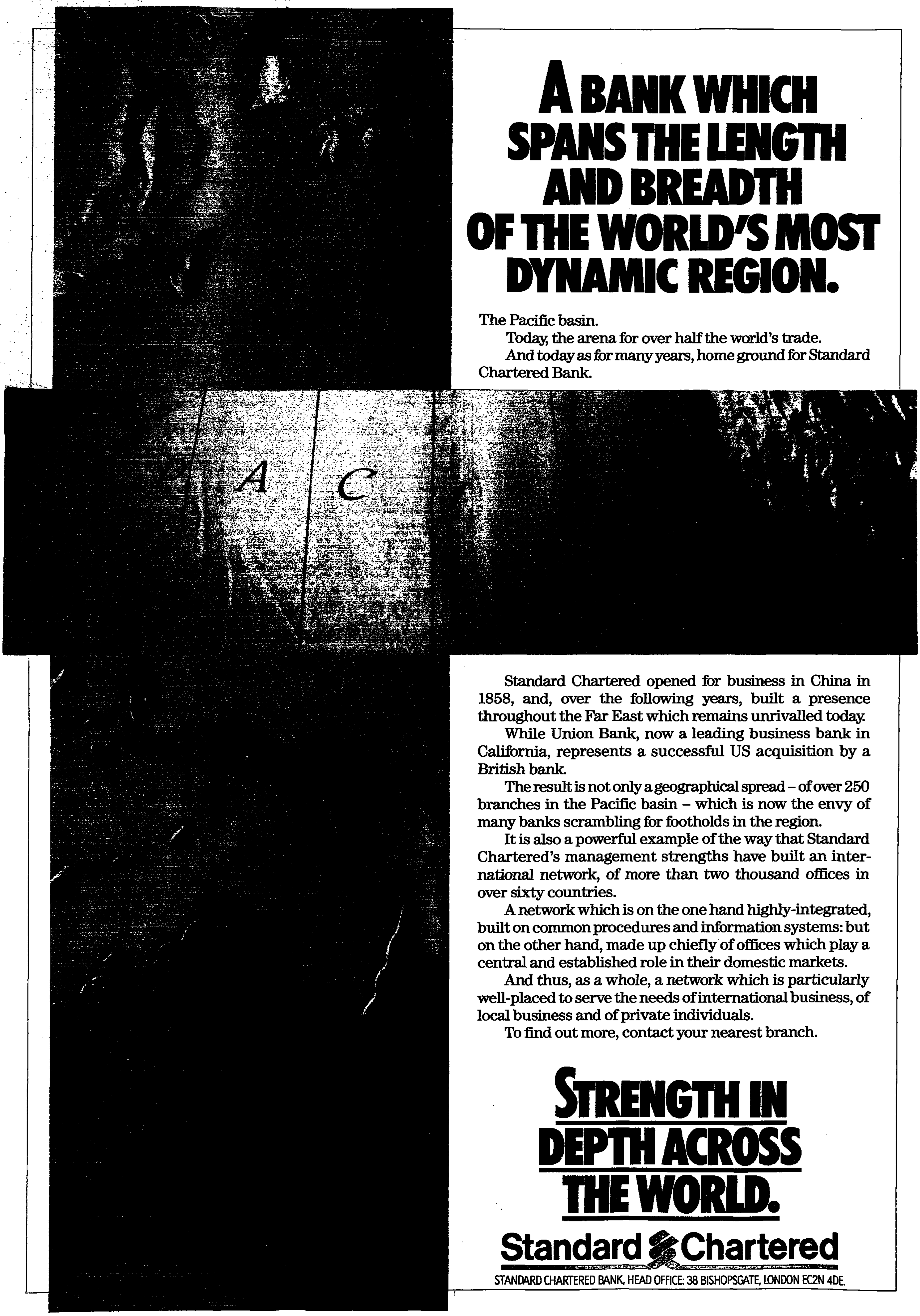
Diversification as a Factor in UK Industrial Strategy. J. Constable in Long Range Planning (UK), February 1986 (8½ pages).

Shows that the UK has had the highest rate of diversification among large companies in the leading industrial nations since 1950, and that this diversification has largely been achieved through acquisition; suggests that this has not produced dominant international businesses and has left a weakened small company sector; argues that the emphasis ought to have been on effective internal development rather than on acquisition and apparent growth.

Factors Which Influence Quality Circle Success. B. G. Dale & J. Lees in International Journal of Operations & Production Management (UK) (12 pages).

Analyses quality circle data (obtained from over 100 manufacturing companies over the past four years) to classify programme's success, failure or survival. Establishes factors important to long-term success, including the adherence to circle rules, the ability of circle members to work together, a "total" organisational approach to quality, and in-depth understanding of quality management; concludes that the lack of clear-cut differences between success, failure and survival is revealing. Emphasises that companies with well-rooted and flourishing programmes started circles as part of a strategy for employee development and participation, rather than for cost-saving reasons.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £4 each (including VAT and p & p; cash with order) from Anbar, PO Box 23, Wembley HA9 8DJ.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INTERNATIONAL APPOINTMENTS

National Steel board moves include president

BY OUR FINANCIAL STAFF

MR KOKICHI HAGIWARA has been appointed president of National Steel, the Pittsburg-based concern owned jointly by National Intergroup of the US and Nippon Kokan of Japan.

National Intergroup sold a half interest in National Steel to Nippon Kokan in 1984, and has been pursuing a diversification path aimed at taking it out of the metals field. Earlier this year, it agreed a $350m bid for FoxMeyer, the Denver-based pharmaceuticals concern.

Mr Hagiwara, 62, has already taken up his new duties, although he does not arrive in Pittsburgh from Nippon Kokan's Tokyo office until Thursday. Nippon Kokan has also brought Mr Sachio Hatori, 61, into the post of vice chairman of National Steel, in place of Mr Haruki Kamiya, who moves to become chairman of other Nippon Kokan subsidiaries.

Mr Seiichi Muto, 56, also joins the National Steel board. Mr Yukio Tani has left the board to become managing director of Nippon Kokan's steel division, based in Tokyo.

Mr Sosuke Doi has resigned from the board of National Steel, but will remain executive vice-president.

Mr Howard M. Love, the chairman of National Intergroup, continues as chairman.

Salomon Brothers global role

SALOMON BROTHERS, the Wall Street investment house, has retained an expert in the marketing of Japanese equity securities for its Tokyo affiliate in a move to increase its global coverage of international equity markets, reports Reuter from New York

Salomon has appointed Mr Toshihide Sakamoto, formerly in charge of marketing Japanese equity securities to Tokyo-based institutions overseas for Yamaichi Securities Company—one of the Big Four Japanese securities houses — to the post of vice president at Salomon Brothers Asia.

Salomon sought unsuccessfully to become one of the first foreign firms to buy a seat on the Tokyo Stock Exchange late last year.

After losing its bid, Salomon announced its intention to continue its efforts to increase its presence in the equities markets in Tokyo and said it would press to obtain a seat on the exchange later.

In retaining a prominent Japanese equities salesman, Salomon is following the path of Japanese concerns seeking to break into the US securities markets.

The four largest Japanese houses have retained prominent US bond traders and analysts, including former officials of the Federal Reserve and Treasury, as part of their efforts to become primary dealers in government bonds here.

● Mr Simon Gerard Thomas has also joined Salomon Brothers Asia, as an international equity analyst responsible for pharmaceutical and foodstuff coverage, as part of Salomon's move to increase coverage of international equity markets.

Mr Thomas, 27, was an analyst in the International Research Department of Sanyo Securities in Tokyo, from 1981 to 1985, and more recently, was associated with Henderson Administration in London.

New chief for Daiwa Europe

DAIWA SECURITIES Company, the Japanese securities house, has appointed Mr Minoru Mori, general manager of the international investment banking departments, as managing director of Daiwa Europe in London, in succession to Mr Katsuhiko Fujimoto, who returns to Tokyo to assume the position left by Mr Mori.

At the same time, Mr Masaomi Mogi, chief representative of the Paris representative office, has been transferred to the Research Department in Tokyo as general manager, succeeding Mr Akio Kohno, who returns to the Daiwa Securities Research Institute.

Mr Masayasu Ohi, chief representative of the Brussels representative office, moves to Paris to succeed Mr Mogi. Mr Hiroyuki Yoshimizu, assistant general manager, international investment service department becomes chief representative of the Brussels representative office.

Mr Sakae Nakamura, chief representative of the Bahrain representative office, has moved to Daiwa Europe in London. He is suceeded by Mr Eiji Suzuki, deputy general manager, Daiwa Europe.

Mr Tadanori Urabe, chief representative, Sao Paulo representative office, has been assigned to the corporate finance department of Daiwa Securities America in New York. Mr Hidehiro Katsumata, international investment banking department, suceeds Mr Urabe in Sao Paulo.

* * *

MR SCOTT PARDEE, a former New York Federal Reserve Bank official, has joined Yamaichi International (America), the US subsidiary of the Japanese securities house, as vice chairman.

Mr Pardee, 49, has been executive vice president of Discount Corporation of New York, a Government bond dealer. He joined the New York Fed in 1962 as a researcher and rose to become manager of its foreign operations and was senior vice president when he left in 1981.

* * *

HILL & KNOWLTON, the JWT group public relations concern, has appointed Mr Richard Cheney, 64, as chairman-elect, to succeed Mr Loet A. Velmans when Mr Velmans retires on January 1.

Mr Cheney, who joined Hill & Knowlton in 1960 and is currently vice-chairman of the worldwide operations and chairman of its US operations, is acknowledged to have been one of the pioneers of the use of public relations during mergers and acquisitions battles. He will be Hill & Knowlton's sixth chairman in its 60-year history.

Top change in ATT and Philips venture

AMERICAN TELEPHONE and Telegraph Company has announced the appointment of Mr Eugene J. Eckel president and chief executive officer of AT & T and Philips, its telecommunications-equipment joint venture with NV Philips, of the Netherlands, from August 1.

Mr Eckel, 62, is currently vice president, manufacturing, of AT & T's network systems unit. He succeeds Mr Alexander C. Stark Jr., 53, who returns to the US to become a senior vice president of AT & T Communications and Information Systems. Mr Stark will report to Mr Sam R. Willcoxon, president of AT & T's business markets group, which under a recent reorganisation is charged with developing and selling long-distance services, computers and telecommunications gear to businesses with more than 60 phone lines.

American Motors Canada switch

AMERICAN MOTORS Canada, wholly owned by American Motors Corporation of Wisconsin, the fourth largest US car maker, has appointed Mr Ronald Hogue president, in succession to Mr William Carroll, who has been appointed North American general sales manager, reports Reuter from Brampton, Ontario.

Mr Hogue was formerly American Motors' director of North American dealer investment.

Emery Air Freight European sales post

EMERY AIR FREIGHT Corporation has announced the appointment of Mr Jan Schenkels as sales manager at its European headquarters in Zurich. Mr Schenkels joins Emery's European sector office from the corporation's headquarters in Wilton, Connecticut.

Emery has recently completed a review of its prduct range and has launched new services on a worldwide basis. The moves are associated with Emery expanding its courier express market in Europe.

American Petrofina

AMERICAN PETROFINA, the offshoot of the Belgian-based oil and energy group has elected Mr Kennth W. Perry president and chief executive officer, to succeed Mr Paul D. Meek.

THE ARTS

Architecture/Colin Amery

Profession honours Isosaki

The award of the Royal Gold Medal for Architecture, since it was established by Queen Victoria in 1848, has always been given to the most remarkable architects from all over the world. However, many of the names on the list are now forgotten. Who thinks of August Stuler of Germany or Frank Darling of Canada any more? More recently, who can picture in his mind's eye one single building by the winner of the medal in 1963, the late Lord Holford?

The selection by the profession of one of its number to honour each year will inevitably produce a list that is subject to the breezes of fashion and mood. This year's winner is Arata Isosaki from Japan. He is honoured some 20 years after the only other Japanese architect to have won the medal, Kenzo Tange.

It is a very good choice. Mr Isosaki accurately represents the state of the art of architecture, and in his work he bridges most convincingly the differences between East and West.

After graduation he worked for some years in Tokyo for the great 20th century Japanese architect Kenzo Tange. Tange was never afraid of monumental expressionism. His buildings for the 1964 Tokyo Olympic Games showed that it was possible—at least in Japan—to use modern technology in a brilliantly expressive way. The great interwoven curves of the Olympic stadia celebrated the tensile nature of the industrial components. It somehow seemed appropriate that Kenzo Tange and his team, of which Isosaki was a prominent member, should find a form that responded to the economic miracle that was the great achievement of contemporary Japan.

Both Tange and Isosaki were prominent in the efforts to find ways of dealing with the massive overcrowding in Japanese industrial cities. Looking back on some of their designs of that period, in the 1960s, it is possible to see some terrifying, inhuman visions.

Both Tange and Isosaki were close to a group of Japanese urbanists who called themselves the "Metabolists." Their great theories wanted architecture to reflect what they called "dynamic reality." They felt that architecture should no longer deal with simple things like form and function. Instead they wanted their creations to be totally concerned with the idea of flexible space.

Isosaki designed at this phase of his career some groups of apartments that resembled nothing more than giant mushrooms. Sprouting from the underside of these strange fungi were pod-like nodules where the unfortunate inhabitants had to live. Metabolism had a great deal to do with movement. Cities, and even architecture, were to be mobile and indeterminate.

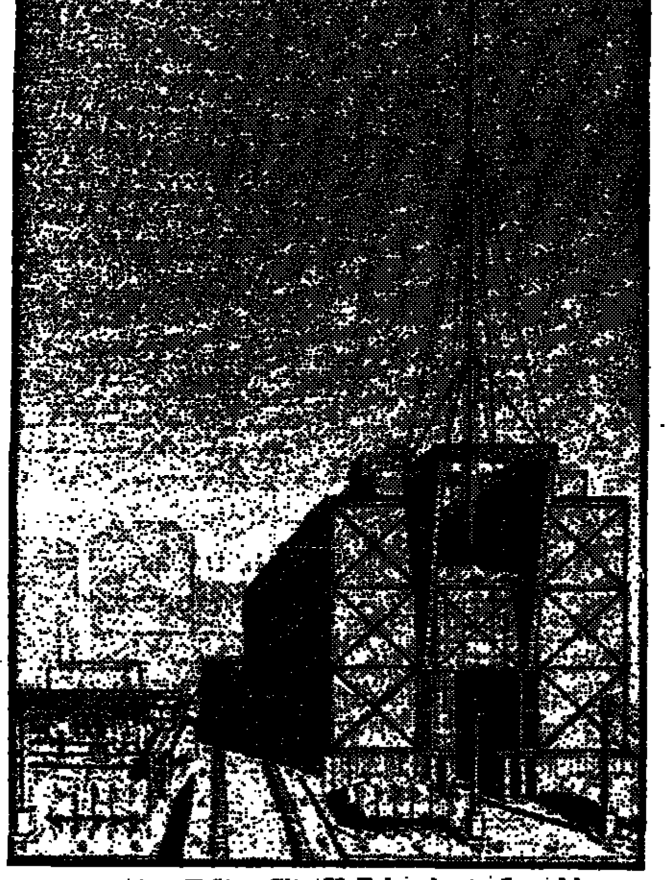
Luckily for all of us, Isosaki recovered from this phase, although, rightly, he did not reject its better elements. Today *his work is rather hybrid.*

One of Isosaki's latest works will be on show later this week at the 9H Gallery (for details telephone 486 3555; 26 Cramer Street, London W1).

It is the design that did not win, but probably should have done. It is for the new Tokyo Civic Hall, and it has been described as a cross between Piranesi and Boulee.

The comparatively low building was to have been topped by a sphere and a pyramid and have in its centre a giant civic space surrounded by galleries. The quality of the silk screen presentations make this the *most colourful and elegant* architectural exhibitions for some time.

Of the successfully built schemes, the Tsukuba Civic centre has incorporated into its design the floor of the Campidoglio in Rome, and a remarkable and elegant series of simple geometric forms around this space. The great double cantilever of the Kitakyusha City Art in Takasaki both have all the elegance of the Japanese tradition as well as the technological smoothness we expect from almost everything made in Japan. Classical Western influences have met their match in Isosaki. He is certainly one of the key figures of contemporary architecture. At only 55 he is still in his prime.



A scheme for Tokyo City Hall by Arata Isosaki — a blend of classicism and technology

Porgy and Bess/Glyndebourne

Max Loppert

Gershwin's opera, conducted by Simon Rattle, produced by Trevor Nunn, designed by John Gunter, and sponsored by Citicorp, opened at Glyndebourne on Saturday. This was the first British opera-house staging of the work; and at the close of a long evening, and of a performance, given without cuts, that had flowered into splendour well before the end, the audience (critics included) stood and cheered themselves hoarse, many with tears streaming down their faces.

Wilfrid Mellers, in *Music in a New Found Land*, wisely *judges the opera* thus: "There are greater 20th century operas: but not one which offers more of the qualities that opera used to have in its heyday, and must have again if it is to survive. Gershwin's *Porgy*, like the operas of Mozart or Verdi, is at once a social act, an entertainment, and a human experience with unexpectedly disturbing implications." The Glyndebourne performance worked to vindicate every clause and particle of that judgment: it is clear that only the hothouse conditions of such a festival could have produced so minutely judged, lovingly achieved a re-examination—and one's only real regret about the evening is that it is unavailable to the whole wide world outside the Glyndebourne hothouse.

The *Porgy* "problems" are quickly summed up and despatched — and, because of Rattle's (and the LPO's) supremely eloquent advocacy of the music, and Nunn's painstakingly detailed yet imaginatively broad approach to the libretto, the performance enabled one to do with them just that. The orchestration is heavily padded, insistent, overworked: even a conductor with Rattle's balancing skills could not prevent some of the vocal lines from being overlaid, and it was therefore a tribute to those skills that in the small theatre the volume of sound was almost always held just this side of the bearable.

Conventional *Porgy* wisdom holds that, in pursuing his stated aim of combining *Carmen* with *Meistersinger* (and, he might have added, with *Boris Godunov, Louise, The Firebird, Daphnis and Chloë, Tiebland, Koanga,* and *Wozzeck*), Gershwin overstretched his compositional technique; that wonderful passages are crudely joined to less wonderful "filling-in" ones; and that because of these musical disparities the dramatic progression tends to give way to a succession of loose episodes.

The production does not totally rebut conventional wisdom, but it makes the strengths of the piece seem so strong—the sense of community and shared existence, the fine-threaded tapestry of individual characterisations, the great title roles, and the flood of memorable, humane, warming melody—that they emerge triumphant.

At first it appeared that this hoped-for triumph might not be inevitable. Act 1 scene 1, the most discursive part of the whole work, finds the Catfish Row tenement narrowly and pokily used, with cramped divisions of the action and stagey presentation of the bit-parts. Thereafter, expert lighting broadens everything out, the versatility of the set design becomes evident, and one soon comes to appreciate the care with which a living, breathing community has been created. (The lingo has been helpfully modernised and doctored.)

Linked relationships, even those of minor background figures, are vividly delineated. The worrying aspects of the libretto—the broad comic insertions, *part of what were once* fiercely stigmatised (by Duke Ellington) as the opera's "lamp-black Negroisms"—are everywhere dignified by "real" human behaviour and sharply observant character development. There is life on this stage, and the spectator partakes richly of it; at the end, it's a shock to leave the theatre.

This is one of the most remarkable ensemble efforts in Glyndebourne's history. The chorus, though not yet always at one with the orchestra, is vibrant (the storm prayers reverberate with alarm conviction); there are so many excellent small performances that one despairs of listing them adequately. And the cast, largely from the US, is without weakness. Bruce Hubbard (Jake) and Gregg Baker (Crown) both come to Glyndebourne via last year's New York Metropolitan production, and Willard White has sung Porgy both in concert performance and on the 1976 Decca recording; otherwise it is a collection of fresh faces and unstaled contributions, everywhere balanced by the same dignity, depth, and rightness of dramatic scale.

So Maria's arms-akimbo comedy loses its burlesque blatancy in the ripe but unexaggerated playing and singing of Marietta Simpson. Harolyn Blackwell (Clara) sings "Summertime" exquisitely, has a face of heartbreaking sweetness, and lights up the stage with every appearance. Cynthia Clarey's Serena, a little tight in top notes, is a figure of unmistakeable authority, and proud, erect presence. On Saturday, although Cynthia Haymon's voice was not always evenly produced, alluring phrases being followed by reticent ones (and her words were often unclear), she had judged Bess's difficult character to move from vulgar exuberance to tender frailty without ever sacrificing credibility or sympathy.

Among the men Hubbard's Jake is outstanding for relaxed, glowing sound. Crown, that rather tiresome post-Nietzschean giant with his windy rampaging and his buttonholing familiarity with the Almighty, is magnificently embodied in the mighty figure of Gregg Baker, who could afford to spare his voice a little more in this small theatre. Damon Evans' Sportin' Life is brilliant—cool, gleaming with mocking intelligence, and very strongly sung.

But all pale before Porgy himself. Gone are the cart and goat, and they are unregretted: there is nothing cosy or vignette-like about this handsome middle-aged man bearing himself on one terribly twisted leg. He demands serious attention from his first entry, and Willard White rewards it with a performance of slowly unfolding warmth, generosity, and final gut-wrenching heroism that stirs the audience to the depths of its being.

In his decade on the London stages Mr White has been waiting for a role fully worthy of his gifts. Now it comes to him in his prime. The singing was *subtle, lustrous and tireless on* a grand scale (is this the next British Wotan?); the acting moved into that area of profound identification of a player with a part that one experiences very rarely on any stage, let alone in the opera house. From him the whole glorious enterprise takes its very special stamp.

The Crap Game—left to right: Gregg Baker, Bruce Hubbard and Willard White

I'm Not Rappaport/Apollo

Michael Coveney

Two old men on a park bench in New York. Both in their eighties. Nat recalls that the last time he made love was July 10 1971. Midge looks interested. "Was your wife still alive?" he asks. "I certainly hope so."

Herb Gardner's Tony Award-winning play arrives in the West End from Seattle via Broadway and the Birmingham Rep. It is an engaging and witty text about senility, a sort of *Zoo Story* for the elderly, *Godot* for the gaga. If *The Shrew* is sexist, *The Doll's House* feminist, and *Snow White and the Seven Dwarfs* size-ist, *Rappaport* is age-ist. Old Nat repels his daughter who wants to put him in a Home for the Ridiculous; a mugger who wants to walk him home for $4; and a drugs dealer who is bullying money from his art student girlfriend.

He does so, with black Midge as his audience and reluctant stooge, in a variety of aliases satelliting around an invented personal history of glorious political struggle in the New York fur trade. Beaten by the mugger, Paul Scofield as Nat hobbles on after the interval "putting on the Ritz" in a walking frame.

In supplementing Frank Lipsius's praise on this page for the play in New York, I would say that it does more than just show the oldsters fighting back. It dignifies the process of dementia by elaborating poetically on the symptoms of amnesia and rambling invention. We see Scofield and his partner Howard Rollins resuming gentilities on the bench: "Where was I?" asks Scofield, wobbling like a jelly and squinting through his granite mask before launching into his exploits as an under-cover agent in Cuba. You know this is the first of many buttonholing sagas, but the play never seems to crash its gears or make a false move.

This is as much a tribute to Mr Gardner as it is to the actors. The double act is a contrasting one of Scofield's movement and Rollins's stillness, of the one's vision and the other's glaucoma. Scofield changes his spectacles, peers at Rollins and declares that he is a black man, collapsing in a creak of hilarity, hands flapping stiffly to his knees and voice rising to a strangulated bark of laughter.

Daniel Sullivan's production has good support from Dorian Healey as the mugger and Michael Mella as a hideously violent urban cowboy. An atmospheric autumnal Central Park setting is designed by Tony Walton and the good costumes by Liz Da Costa—Scofield's large-checked suit and black beret complete the image of compulsive Jewish story-teller. He and Mr Rollins—who has some wonderful moments of baffled, rotating incredulity — are delightful advocates for the crumbling hip generation.

Bussotti/Almeida Festival

Andrew Clements

With Italian music taking over the Almeida for the last week of the festival, on Thursday Giacinto Scelsi yielded to Sylvano Bussotti as the Italian "Master" (the Almeida's term) in residence. The Arditti Quartet were the performers, and the first part of their typically generous triple-decker programme dipped a modest toe into the exotic, over-heated world of Bussotti.

Bussotti's reputation for the exotic is founded upon his theatre pieces, *La passion selon Sade, Lorenzaccio, Le Racine.* Of the four concert works played by the Arditti, one, the *Gran Duo* for cello and piano (1978), also exists in a stage version which requires "a multiplicity of formal dancing couples of any (sic) sex." It was given here without such appurtenances, and proved to be a fairly unrewarding introduction to Bussotti's more recent style, which seems to want to embrace neo-romanticism without ever quite relinquishing its fondness for post-Webern pointillism.

The Almeida programme book is chronically weak on dates, but for Bussotti it scarcely mattered. It was easy to place the *Phrase à trois* at 1960; it has all the right ingredients for those heady days, with instrumental parts laid out like road maps and fragments of fractured material strewn across them. Similarly the greater sense of continuity in *Quartetto Gramsci* seemed a little later, and in fact it dates from 1971, when Bussotti's music was beginning to respond to the move away from aleatoricism. Always a faithful mirror held up to fashion, Bussotti seems so much a product of his generation it is hard to hear his pieces now without a faint twinge of nostalgia.

*

Sylvano Bussotti (b. 1931) is not merely a composer, but is also (in his own estimation) a distinguished painter, poet, actor, film and stage director, designer, and polemical essayist, hailed in his own country (chiefly by his own courtiers) as a new "Renaissance Man." That is a typically flamboyant claim: for Bussotti is quintessentially a creature of the 1950s and early 1960s, when in a certain European artistic milieu almost anything went, and almost anything was possible, as long as the claim was sufficiently extravagant, and the tone of voice sufficiently strident.

Bussotti undoubtedly has a talent for presentation. Even where the actual artistic substance of what he offers may be very slim indeed, he has carried the day nonetheless, on and off over the years, with a liberal dressing of flamboyant drollery. His discovery in the early 1960s of graphic notation was a notable godsend: by *working with ever more elaborate* fantasy on the visual appearance of his scores, he could distract attention, at least temporarily, from their aural irrelevance. I suppose that I must have heard two dozen Bussotti pieces, large and small, over the past 20 years. Some of them *looked* very pretty, either in score or in the manner of their performance; but it is no exaggeration to say that none of them, large or small, has ever appeared to contain a single measure of memorable musical significance.

The Almeida Festival's penultimate evening on Saturday was devoted to Bussotti's music, and the composer himself was present. It was a rather sad occasion: for Bussotti's gifts today have all but fallen out of fashion in the music world—and his peculiar brand of fanciful (but essentially superficial) posturing leaves a very dull taste in the mouth.

The Manson Ensemble, conducted at appropriate moments by Guy Protheroe, gave performances of admirable — in the circumstances one can hardly say "accuracy" — concentration and dedication. But nothing could hide, or compensate for, the absence of significant musical invention in the pieces they played. A catalogue would labour the point, which is pointless: enough said.

DOMINIC GILL

Verdi Requiem/Albert Hall

Max Loppert

Friday's lucid, expertly prepared Verdi Requiem was mounted to celebrate the Royal Philharmonic Society's forthcoming 175th season (and in aid of the RPS charity fund). Lorin Maazel, made an honorary member of the society for the occasion, conducted a massive and excellent choir combined from Royal Choral Society, London Symphony, and London Philharmonic choruses; the orchestra was the Philharmonia.

All were in virtuoso command of a score which always sounds better here than anywhere else in London. Maazel's detached, fingers-on-the-control-button conducting manner usually means that admiration for the *technical mastery of a performance* precedes emotional involvement in the music. Yet the unhurried, scrupulously precise laying-out of the sound-canvas and the huge range of Verdian dynamics can be relied upon, in this hall, to carry its own kind of thrill. (Such close attention was paid to the markings of the score that the failure to dispose the offstage trumpets *invisibili e lontani*, as requested, proved all themore *surprising*).

The soloists promised more on paper than they delivered in performance. The unscheduled soprano, Carol Vaness (replacing Gabriela Benackova), was the best of them—she is on the way to an authoritative and grandly felt account of the great "role," as the final dark murmurs made clear (more incisive consonants would make all the difference).

The frayed sound of Lucia Valentini's lowest and highest notes was saddening, though in between she worked up some opulent phrases. The tenor, Francisco Araiza, was true of pitch (useful in unaccompanied vocal ensembles) but sorely inexpressive, an operatic automaton set at *mezzoforte*. And the huge black bass of Paata Burchuladze rolled out with scant regard for niceties of dynamics or intonation. With such a team, unanimity of Verdian purpose was out of the question.

Rod Stewart/Wembley Stadium

Antony Thorncroft

Wembley Stadium is turning into the transit lounge of British pop. Last weekend there were tears (of relief?) for the departure of Wham; this weekend there were more heart-felt tears of emotion as we welcomed back Rod Stewart. It is surprising that the cocky coxcomb, with his obsessions about Scottish football and leggy blondes, should arouse such enthusiasm, but in his first British appearance in aeons he was quite superb.

More to the point he climaxed his two hours by bringing on his old mates from the Small Faces, including Ronnie Lane, now suffering from multiple sclerosis. It could have been painful, Lane escorted to a stool, beating his thigh limply and singing fitfully: but as the other Faces encouraged him the occasion became pop at its most idealistic and chummy, another miracle of "St" Bob Geldof.

Like most hard-living rock stars Rod Stewart looks sickeningly perky for his 41 years. He has cut down, thankfully, on some of his strutting around the stage, but he still tosses the mike stand to the heavens; kicks footballs into the crowd; and shakes his bottom. And he still has a way with an audience. For many of his splendid slower songs, like "Maggie May" and "Sailing," he just winds it up and lets the thousands sing them for him. It creates a warm, convivial atmosphere.

Rod Stewart's greatest asset (now that his voice has risen by an octave and lost its Woodbine rasp) is his material. As the old favourites poured out—"Some guys have all the luck"; "Baby Jane"—with their insidious choruses, it is impossible not to raise a hesitant voice with 70,000-odd others. And, as we sing, the chorus master lies on the stage, or changes into his tartan jacket, or just looks pleased with himself as he has every right to. Rod Stewart has been out of fashion too long; on Saturday night he roared back as one of rock's great showmen. He did not need the half-dozen kilted pipers blowing his latest, "Every beat of my heart." He can deliver alone. He even managed to stop it raining.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

July 4-10

Music

ITALY

Rome: Piazza del Campidoglio: The St Cecilia orchestra conducted by Rafael Frühbeck de Burgos in Poulenc's concerto for two pianos (with soloists Gino Gorini and Eugenio Bagnoli), and Orff's Carmina Burana with soprano Lynda Russel, tenor Peter Hall and baritone Stephen Roberts (Wed, Thur). (654 1044).

Macerata: Arena Sferisterio: The London Symphony Orchestra conducted by Lorin Maazel (Sun). (4 95 08).

FRANCE

Sully-sur-Loire (July 4-Aug 2): Chamber music by Quatuor Brandis, Prague Suk Quatuor, Salzburg's Mozarteum's Camerata Academica, Teresa Berganza recital, Aldo Ciccolini's and Alexis Weissenberg's piano recital alternate with La Nuit du Jazz, the Cambridge Buskers and orchestra playing Verdi's Requiem, Beethoven, Wagner and Prokofiev (3838 2946).

Vaison la Romaine (July 6-Aug 1): The Theatre Antique is a perfect backdrop not only for Maurice Bejart's ballet, Soirée Lifar and Maguy Marin's company but for Moscow's Virtuosos, Lyon's Opera Orchestra conducted by Stefan Soltesz, with François-Rene Duchable as soloist in a Liszt concert, and Romania's State Orchestra ending the festival with Beethoven's 9th Symphony (9036 0625).

Festival Mediterranean from the Pyrenees to the Cote d'Azur (July 5-Aug 29). Perpignan: Orchestras from Toulouse, Strasbourg, Lyons, and the London Symphony Orchestra conducted by Lorin Maazel. Amelie les Bains: Narciso Yepes, guitar. Estagel: Miguel-Angel Estrella, piano. Saint Jean Cap Ferrat: Ruggero Raimondi, baritone. Cassis: Academy of St Martin in the Fields. Salon de Provence: Montserrat Caballe, soprano, Jean-Pierre Rampal, flute, Marielle Nordmann, harp, Alexis Weissenberg, piano. Cap d'Adge: Eda Moser, soprano, Moscow Virtuosos, Vladimir Spivakov, and Barbara Hendricks recital.

BRUSSELS

Festival of Wallonia: Liège Soloists Ensemble conducted by Paul Ferrington with Carol LeCaa, soprano: Grétry, Gould, Schubert, Copland, Mozart (Sat), Huy-Durbuy. RLT Symphony Orchestra conducted by Andre Vandernoot with Jean Claude Van den Eyden, piano: Lizst (Sat), St Hubert. Lithuanian Chamber Orchestra with Charles Wieder, violin: Mozart, Curtonis, Bajoras, Tchaikovsky (Sun). Florenville.

NETHERLANDS

Amsterdam, Nieuwe Kerk: organ recital by Remy Syrier. D'Attaignant, Muffat, Bach (Thur). (268 168).

SPAIN

Granada's international festival concludes next week with an interesting programme: Monday, the Jonde (Joven Orquesta Nacional de España) conducted by Jesus Lopez Cobos will perform Mozart's Il Seraglio in a co-production with Berlin Opera. Tuesday, Berliner Streich Quintett, Mozart. Wednesday: cellist Carlos Prieto accompanied by pianist Angel Soler; Shostakovich, Beethoven, Ernesto Halffter and Kodaly. Thursday: Orquesta de la RTVE conducted by Granadino Miguel Angel Gomez Martinez: Beethoven's nine symphonies, today being no 1 and 3. All concerts in delightful setting. The Alhambra, Moorish palace in Patio de Los Arrayanes. (22 52 01).

LONDON

London Philharmonic Orchestra, conductor Klaus Tennstedt with Peter Donohoe, piano: Brahms. Festival Hall (Wed).

Mitsuko Uchida Mozart Cycle with the English Chamber Orchestra and Wind Ensemble: Mozart, Stravinsky. Elizabeth Hall (Thur).

Philharmonia Orchestra, conductor Simon Rattle with Maria Ewing, mezzo-soprano: Debussy, Ravel, Boulez. Festival Hall (Thur).

VIENNA

Budapest Symphony Orchestra conducted by Neithard Bethke. Händel, Haydn, Jongen. Konzerthaus. (72 12 11). (Sat).

Vienna Symphony Orchestra conducted by Zdenek Kosler: Mozart, Tchaikovsky. Arkadenhof (part of Music Summer Festival: 42 800/2085 and /2095). (Tue).

Berliner Oktett: Weber, Beethoven, Schoenbrunn Palace (Music Summer Fest). (Wed).

Vienna Symphony Orchestra conducted by Ken Takaseki with Philip Entremont, piano: Hueber, Ravel, Beethoven. Arkadenhof (Thur).

NEW YORK

Mostly Mozart Festival (Avery Fisher Hall): Gerard Schwarz conducting. Erie Mills soprano, Carol Wincenc flute, Heidi Lehwalder harp. All-Mozart concert to kick off the 20th anniversary two-month season (Mon & Wed); Claudio Scimone conducting, Michala Petri recorder. All-Vivaldi concert (Thur). Lincoln Center (874 2424).

WASHINGTON

Summer Festival (Concert Hall): Highlighted by a visit from the Newport Folk Festival in August, this summer-long string of popular singers and musicians includes recital performances Neil Sedaka, Shirley Bassey, Dionne Warwick and Petula Clark. Ends Aug 27.

CHICAGO

Ravinia Festival: The 51st season, honouring Mozart and the 230th anniversary of his birth and Liszt on the 100th anniversary of his death, continues with a recital by Jan DeGaetani, mezzo-soprano and Gilbert Kalish, piano. Mahler, Crumb, Poulenc, Rachmaninov, Ives (Tue); Preservation Hall Jazz Band (Wed); Arlo Guthrie/Pete Seeger (Thur). Highland Park. (728 4642).

TOKYO

Frederica von Stade, mezzo-soprano: Mozart, Mahler, Fauré. Tokyo Hitomi Memorial Hall, Showa Women's College, near Sangenjaya (Tue). (571 1689; 545 8348/9348).

Hironaka Takashi, piano: Beethoven, Brahms, Chopin. Tokyo Bunka Kaikan Recital Hall (Wed). (571 1689; 237 9990).

USSR Ministry of Culture State Symphony Orchestra, conducted by Rozhdestvensky with Victoria Postnikova, piano: Prokofiev, Tchaikovsky, Shostakovich. Opening concert of Tokyo Summer Festival '86 with *this year's theme, Russian* music. Tokyo Bunka Kaikan Hall (Wed). (237 9990; 980 6060).

Chinese dancers for Britain

The Central Ballet of China will make its British debut at London's Sadler's Wells Theatre in the autumn. The company's three-week season starts on October 2—the same month as the Queen's visit to China.

The performances are being financed by a £52,000 sponsorship deal with Cable and Wireless.

The announcement follows the recent £500,000 business sponsorship deal which saved Sadler's Wells from closure.

The Sadler's Wells Royal Ballet plans to visit China in 1988 under the Anglo-Chinese cultural exchange programme.

John Dexter to direct New Theatre

John Dexter who, together with Eddie Kulukundis formed The New Theatre Company, will direct its first production, T. S. Eliot's *The Cocktail Party*, which comes to the Phoenix Theatre on July 23 after a week at the Bath Theatre Royal.

Founder members of the company in the cast are Alec McCowen, Sheila Gish, Simon Ward, Rachel Kempson, Sheila Allen, Robert Eddison, and Stephen Boxer.

SWET's female president

Miss Verity Hudson has become the first female president of the Society of West End Theatres in its 78-year history.

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Flight from quality

LAST WEEK'S decision by the New York Stock Exchange to permit the listing of shares with unequal or no voting rights was not good news for the investment fraternity. But it was probably inevitable, and also symptomatic of the way the wind is blowing in securities markets across the world.

The New York Stock Exchange faces a competitive challenge from the American Stock Exchange and the over-the-counter market administered by the National Association of Securities Dealers. Both have adopted a less rigorous attitude than the NYSE to the principle of one share, one vote. So there was a serious risk that some of America's biggest corporations might have been tempted to forsake the Big Board (and could still be tempted if the Securities and Exchange Commission fails to approve the change) in a climate where the activities of corporate raiders have enhanced the attractions of non-voting shares.

Deregulation and the internationalisation of securities markets are producing similar pressure for lower standards elsewhere. In Britain the domestic corporate bond market has been inert for years. But as the latest Lloyds Bank Economic Bulletin points out, the Eurobond market is expected to provide British industrial and commercial companies with around £4bn of new funds this year, about half of that in sterling. Part of the explanation lies in the lower costs, absence of restrictive covenants and greater flexibility that the relatively unregulated Eurobond market offers to companies. Companies are voting with their feet.

Improved liquidity

It would probably be going too far to argue that deregulation has spawned a new version of Gresham's Law in which bad paper drives out good. The shift in the balance of power away from investors towards the corporate borrower or issuer of capital is welcome to the extent that ease of access to the markets is enhanced.

Nor is the process totally one-sided. The internationalisation of securities markets ought to provide the investor with improved liquidity. The question is whether that liquidity will prove durable, especially in new areas such as the Euro-equity market, and whether standards will not drop to the point where confidence in the integrity of markets starts to erode.

Orderly markets

If that risk is to be avoided, co-ordination between different national regulatory authorities, especially in relation to insider dealing and fraud, is obviously desirable. Yet it is questionable whether international co-operation can be taken as far, in the securities area, as in banking. Agreements on lender of last resort arrangements under the auspices of the Basle-based Bank for International Settlements reflect the perception of a common interest in avoiding shocks to the international financial system. By contrast, governments are competing in securities business to offer lower regulatory standards in order to win international business from competing financial centres.

It follows that the onus must, to some extent, lie on the larger corporations to decide how far to push for relaxations in listing requirements and on institutional investors to decide how far to accept an erosion of their rights under existing regulations and practices. While both have an interest in orderly markets, they may also be tempted to take too short term a view.

This is particularly true of institutional investors, whose actions are heavily influenced by the growth of short term performance measurement. Yet those who are prepared cheerfully to accept an erosion in the quality of their investments may live to regret it. The value of sound listing requirements and borrowing covenants always reasserts itself in a bear market, when liquidity sometimes turns out to be illusory. It is a lesson that investors forget at their peril.

Water under the bridge

THE BRITISH Government's decision to postpone the privatisation of the water industry is welcome in a number of ways. Water was never the most obvious resource to privatise in the first place. Because it is a commodity by which everyone is affected, it arouses all sorts of emotions. The necessary legislation would have been complex and contentious and would have taken a great deal of parliamentary time in what might be the last full session before the next general election. The House of Lords would almost certainly have put its oar in, causing yet more embarrassments for a government that has had legislative problems enough in the past two or three years.

It may be asked why the Government was so foolish as to have ever promised the measure when the difficulties were foreseeable and the rewards uncertain. All that, however, is now water under the bridge. The Government deserves at least some marks for discretion, even at this late stage in the day.

There have been one or two other signs lately that Mrs Thatcher's administration has been raising its sights beyond what is presently passing through Parliament and the contents of the next Queen's Speech. The most striking was the Prime Minister's decision last month to appoint a committee of senior Cabinet ministers, chaired by herself, to prepare the next election manifesto and to plan a strategy for the 1990s.

Seminal case

Sir Geoffrey Howe, the Foreign Secretary and a member of the strategy committee, was honest enough to admit in a speech last week that the Conservatives have only half-fulfilled the ambitions they had when they came to power in 1979. "Recovering lost ground," he said, "is never as easy as losing it. Britain had spent many years sliding down the league of international prosperity. Today our relative decline has been halted. But we are still failing to grasp our chances of climbing back up the international performance league."

That is quite true. What is new is the realisation on the Tories' part that to win a third term they cannot simply rely on the approach to the general election of 1983, which was essentially one of capitalising on the Falklands war and splits in the opposition, then cobbling a manifesto together and going to the country as soon as possible. They need to pause and think, to begin again to try to distinguish the wood from the trees.

Unlike the dropping of the Water Bill, some of the Government's about-turns in recent months have been regrettable. The Westland affair was a fiasco, whichever way one looks at it, and it looks no better with hindsight. Two able ministers were lost merely because no one seemed to be in control of the government machine. The retreat on the disposal of parts of BL to US concerns looked like panic. It has left the Government with the problems of BL unresolved. The loss of the Shops Bill seemed like surrender.

It is possible to go back into the previous year, indeed into any period since the 1983 election, and find similar examples of a Government that, for all its overriding majority in the House of Commons, looks less than assured. Perhaps the most seminal case was the decision to ban trade union membership at the communications headquarters in Cheltenham (GCHQ), which even now has its ramifications.

What all the examples have in common is an uncertainty of touch, a loss of direction. Even leaving aside the key question of unemployment, this does not always look like a Government that has a strategy for the 1980s, let alone the 1990s.

A pause for thought and a relatively light Queen's Speech in the autumn ought therefore to be in the Conservatives' best interests. It could prepare the way for a general election next year, though it does not have to. That is an option better kept open for the time being. Slowing up the pace of legislation ought to be in everyone else's best interests, too. For there is a great deal for all the political parties to think about.

The essential questions are: what has the Thatcher revolution achieved, where has it failed and what happens next? Is the next phase of British politics to be Thatcherism with a human face, or is there to be a complete change of ground? The Labour Party, in particular, has not fully provided the answers. Its attitude to privatisation is still uncertain and it is not yet clear what it would do about the law affecting the trade unions. The Alliance appears in danger of being squeezed by a Labour leadership moving towards the centre and a Tory Party that could become more pragmatic. Not least, the Tories have still failed to outline the next stage of what might be called "sensible radicalism." That pragmatic radical, Mr Nicholas Ridley, has done everyone a service by taking the mind off privatising water.

GENERAL JARUZELSKI'S POLAND

When only change can save the status quo

By Christopher Bobinski in Warsaw

Two faces of Jaruzelski: smiling with Mr Gorbachev (left) and the stern military leader

SINCE THE last war Poland's Communist leaders have managed to hold on to power for an average of 12 years before strikes and demonstrations, internal party intrigues, or both, have pushed them out of office. Complacency has tended to set in at around the middle of their term, allowing them to rule on, oblivious to the approaching crisis.

It is a lesson which General Wojciech Jaruzelski, re-elected as Polish party leader at a congress last week, and who starts his sixth year in power this autumn, seems to have learned well. There was little that was complacent about his speeches to the five-day meeting in Warsaw's ornate Stalinist-style Palace of Culture, nor in the addresses of many of the delegates.

"Satisfaction over what has already been accomplished is accompanied by an awareness of shortcomings. We still face the difficulties of daily life. We still experience the heritage of traumas, disappointments and mistrust," the General told the congress in his keynote speech.

This was not what had been expected of the congress — the first since the Solidarity free trade union movement was banned and martial law imposed in December 1981. It had been billed as a "congress of victors," the celebration of a political party which, as the authorities see it, has "normalised" the country and, with Solidarity out of the way, resolved its problems.

There is no doubt that the party was in disarray during the winter of 1981 when General Jaruzelski brought the army on to the snow-covered streets and interned the Solidarity leadership. The subsequent years saw a cautious releasing of the free trade union activists as their calls for token strikes and demonstrations evoked less and less of a response. The combined efforts of the riot squads and plain-clothes police, as well as a conscious if inflationary effort to compensate the great mass of workers for price rises by increasing wages, has maintained a social peace. Real wages have been rising at an annual rate of 4 per cent so far this year.

Lech Walesa can evoke sympathy but has no political clout

Mr Lech Walesa, the Solidarity leader and Nobel Peace Prize winner, living in Gdansk, is still able to evoke sympathy but he has no political clout. His calls in statements channelled via the underground for dialogue with the authorities, who refused to respond, have grown weaker and fewer. And the underground leadership too has suffered recurring blows, culminating in the arrest on May 31 of Mr Zbigniew Bujak, the Warsaw Solidarity chief, who had managed to evade capture for four and a half years.

For the moment Solidarity is little more than an impressive array of clandestine weekly publications and books. Taken together they still constitute the seeds of an alternative political culture, possibly of immense significance for the future. The underground distribution networks help to keep alive the links between like-minded people.

But Solidarity's influence on the shop floor is minimal and will remain so for as long as the mass of workers continues to shun protest as too risky. In the meantime, some activists have gone into legal workers' industrial co-management councils while others have got involved in Catholic Church-sponsored workers' pastoral committees.

The powerful Catholic Church, led by the Primate Cardinal Jozef Glemp, who this year celebrates five years in office, has worked for calm since martial law while urging the government to permit Solidarity to play a legal if limited role. It has also consistently, and with greater success, worked to free political prisoners and to ease the lot of those who remain in jail. Recently Archbishop Bronislaw Dabrowski, secretary of the bishops' conference, admitted that over half of his contacts with the authorities had been devoted to this kind of intervention rather than to church matters.

However the Church's cautious approach has led to internal tensions. In the first few years after martial law, many thought that the priests would be able to claw back lost freedoms. A minority of priests and some bishops took to expressing these hopes in public, incurring the government's enmity and prompting demands that Cardinal Glemp silence his politicised clergymen.

That government requirement has continued and an uneasy calm has settled over Church-State relations. But the congress saw few attacks on the Church, thus leaving General Jaruzelski free to seek accommodation with the Polish-born Pope John Paul II before his visit to Poland next year.

The Catholic Church's cautious approach has led to much internal tension

Nevertheless the changes in economic policy previewed by General Jaruzelski at the congress raise the prospect of renewed tension.

Poland's economy is in a parlous state. Hard currency exports are still too weak to carry the burden of servicing the country's almost $32bn in external debt, while a series of rescheduling agreements with Western banks and governments remain the primary means of making up shortfalls. Inefficiency is rife and the powerful conservative industrial lobbies continue to demand funds for long term investment projects which promise little to the hard pressed consumer.

Rationing is widespread. The promise of market-orientated reforms decreed by government in 1981 and embarked upon in 1982, the first year of martial law, remains largely unfulfilled.

Some changes have been made. But the entrenched bureaucracy, jealous of its powers, has used resulting shortages to argue for a return to a more centralised system. Most Polish economists believe that unless the country presses ahead with the changes laid down five years ago, the country's economic and political system will be under threat.

It is this message which General Jaruzelski seemed to have taken to heart last week when he told his party congress that a second stage in the reform must be embarked upon. This means a much more determined attempt to cut state subsidies both to inefficient industry and on the price of consumer goods. Equilibrium between supply and demand would have to be reached, bankruptcies of individual companies permitted, and reorganisation of the central bureaucracy initiated. Investment policy would also have to be shifted, giving individual companies greater capital spending powers at the expense of the continuation of massive central projects, many of them inherited from the 1970s. All this is risky. It incurs not only the resistance of the bureaucrats, but also could prompt opposition from workers forced to change the habits of a lifetime in the name of greater efficiency.

At the congress, the country's Prime Minister, Mr Zbigniew Messner, who has favoured a more cautious approach to reform, warned of the dangers of provoking discontent, but he was answered by a rank and file party delegate, Mr Stefan Debowski, from Lodz. "There might be certain social tensions," he said, "but there is no turning back . . . If we don't work for greater efficiency the economy will deteriorate, making it all the more difficult for workers anyway."

For despite the crushing of Solidarity, Poland's ruling Communist party still must deal with the two problems which gave rise to that movement, and which at some future date threatens a renewal of unrest. These are the demand for better living conditions, fuelled by the awareness of the wealth of the not so distant West, and for limits to be placed on the stultifying political monopoly of the party itself.

On the economic side Poland's return as a member of the International Monetary Fund last month brings the promise of between $2bn and $3bn in new credits over the next few years, but also the prospect of demands by the Fund for market-orientated economic policies. This, coming from the West, will be easier to sell to a distrustful populace.

Not to be underestimated also is the strength of support which the Soviet leader, Mikhail Gorbachev extended to General Jaruzelski at last week's congress. He spoke more strongly than any previous Soviet leader in favour of change in the Socialist block and warned that failure to modify economic and political methods in time could lead to crises such as that which racked Poland in 1981.

As long as the Soviet leader maintains this line, the General will have greater freedom of manoeuvre on the political front for the institutional changes which he has introduced thus far, though seen as greatly inadequate by the mass of the population, had been regarded by East European conservatives with suspicion.

"They don't like novelties" one experienced party member remarked. And all the indications thus far are that on the political front, the General is sticking to his gradual approach. The amnesty he is planning for political prisoners this month looks as if it could cover only the smaller fry among the three hundred or so detainees, leaving Solidarity's underground leaders in prison. But approaches in the past two months to independent Catholic lay leaders to join a new official advisory council have raised hopes of renewed dialogue. The Catholics are holding out for a total amnesty as a condition of participation. The Bishops, after their recent conference, have called for political changes which would give Solidarity some legal role, thus eliminating the problem of political prisoners.

The strength of Gorbachev's support cannot be underestimated

There is little hope that such calls will be heeded, but the promotion at the congress of Mr Stanslaw Ciosek to the post of Communist party secretary shows that the General is willing to countenance unconventional approaches. In 1981 Mr Ciosek, then Minister in charge of relations with the trade unions, was one of the few government officials able to find a common language with the Solidarity movement.

General Jaruzelski, despite his caution, has emerged from the congress as a conservative aware that only change can maintain the basic outlines of the system and that failure to press ahead increases the threat of another upheaval.

Men and Matters

An eye to the futures

Leo Melamed is widely seen as the father of currency futures and is never backward about extolling their virtues. In his ardent tub-thumping in support of the Chicago Mercantile Exchange, he has even been known to trace the development of futures markets back to biblical times. The CME is the biggest marketplace for currency futures, and he is a key figure there.

So it is not surprising that Melamed should be worried about mutterings in Congress in favour of a return to a Bretton Woods-type system of fixed exchange rates. Senator Bill Bradley, a Democrat, and Representative Jack Kemp, who is readying a Republican presidential campaign, are among those arguing for such a system as a way to cut the trade deficit. Fixed rates would kill currency futures—which like all futures markets thrive on volatility—stone dead.

Melamed had a chat with Milton Friedman, the monetarist economist. Between them, and with the CME's sponsorship, they have got together a group of notables calling itself the American Coalition for Flexible Exchange Rates—ACFX for short.

ACFX sees itself as an educational forum rather than as a lobbying group. The list of names it has mustered includes Henry Reuss, former chairman of the House Banking Committee, two former chairmen of the Council of Economic Advisers, Herbert Stein and Murray Weidenbaum, former Treasury Secretary William Simon, as well as top bankers and economists.

The message is that stable exchange rates are good for you (or, as a "position paper" puts it, "genuine marketplace-created stability in the exchange markets is meritorious"), but that attempts to impose them have always failed. Instead, ACFX supports convergence of economic policies, leaving the market to sort out currency values. "Manipulation of exchange rates is an incorrect prescription, equivalent to treating the symptoms of a diseased patient while ignoring the underlying illness," it says.

"Now the damn river's full of old water privatisation prospectuses"

City bound

"I think any financial academic would find the chance of a place in the markets over the next two or three years irresistible. There are going to be major changes and it is going to be very exciting."

Thus, Prof Desmond Fitzgerald on his decision to give up the chair of finance at Strathclyde University after a year to join Alexanders Laing and Cruickshank, the investment banking arm of John Barkshire's Mercantile House.

Fitzgerald, 39, will head ALC's economic and financial research team and will also work closely with Barkshire on strategic planning — new products and new markets.

Fitzgerald has worked with Barkshire before—helping him in 1982 to establish the London International Financial Futures Exchange.

Though Fitzgerald has been an academic for the past nine years — in New York and at the City University Business School — he began his career as an economic analyst for brokers, Scrimgeour, and for two years was senior economist at Chemical Bank.

"And I've always kept in close touch with the markets," he says. "My main academic interests have been in financial gadgetry — futures, options, swaps — and I've maintained close links with the Stock Exchange as well as Liffe."

On board

Midland Bank is fast becoming the most international of the UK clearers. After recently appointing a Japanese as one of its senior corporate executives, it has now voted two foreigners on to its 20-strong board. They are Ernst Brutsche and Herve de Carmoy who, together, are believed to represent the largest foreign contingent ever to appear at the top of a British clearer.

Brutsche, a 48-year-old German, is in charge of group treasury, which includes the Big Bang operations Midland is putting together through Samuel Montagu, its merchant bank, and Greenwells, its stockbroking arm. "My appointment is a recognition of the growing importance of investment banking," said Brutsche who came to Midland through Trinkhaus and Burkhardt, the German bank Midland bought in 1980.

Brutsche has made his home in London, though he travels to Germany several times a month to visit Trinkaus in Dusseldorf, and to call on his family in Munich (where he was this week-end). Wiry and precise, Brutsche has spent the last three years building up Midland's dealing side.

He owes his move to Midland to de Carmoy, the tall, bespectacled Frenchman, also based in London, who heads Midland's international side and helped organise the Trinkhaus purchase. De Carmoy, who is 49, came to Midland in 1978 after 15 years with Chase Manhattan. He ascribes his elevation to the board to the £120m rise in Midland's international profits in the last three years (excluding the Crocker disaster which was not handled by his department).

Ecu today

A periodical devoted to the Ecu (European Currency Unit), that most intangible of currencies, might seem to set new standards in specialist publishing. But "Ecu Today" will be hitting the streets from next autumn at the rate of ten issues a year.

"We are hoping for a circulation of about 5,000 initially," said Michel Coste, the editor, who works in Lyon, where he is already producing the French language version "Aujourd'hui l'ecu." The cost of a subscription will, naturally, be quoted in ecus (74 of them, or £47.50).

The publishers are CEPREM, an association founded in 1982 to promote the unit, which is a basket of nine European currencies seen by its bankers as the key to monetary integration. Subscribers to the periodical's French version include such varied organisations as Barclays Bank, General Motors, Fuji Bank, the IMF and Mcdonalds.

"The ecu is already the fifth largest currency for international markets, which means it is more important than most European currencies," says Coste. "It is even used by the Soviet Union in its trade with the West."

In a recent issue, "Aujourd'hui l'ecu" gave the result of a European opinion poll which showed the British not only most opposed to the ecu but also most ignorant about it (only 35 per cent had heard of it compared to 77 per cent in Luxembourg): so maybe Coste needs to get his message across.

Observer

BASE LENDING RATES

	%		%
ABN Bank	10	Exeter Trust Ltd.	10½
Allied Dunbar & Co	10	Financial & Gen. Sec	10
Allied Irish Bank	10	First Nat. Fin. Corp	11
American Express Bk	10	First Nat. Sec. Ltd	11
Amro Bank	10	• Robert Fleming & Co	10
Henry Ansbacher	10	Robert Fraser & Ptrs	11
Associates Cap Corp	10	Grindlays Bank	‡10
Banco de Bilbao	10	• Guinness Mahon	10
Bank Hapoalim	10	• Hambros Bank	10
Bank Leumi (UK)	10	Heritable & Gen. Trust	10
Bank Credit & Comm	10	• Hill Samuel	§10
Bank of Cyprus	10	C. Hoare & Co	10
Bank of Ireland	10	Hongkong & Shanghai	10
Bank of India	10	Knowsley & Co. Ltd	10½
Bank of Scotland	10	Lloyds Bank	10
Banque Belge Ltd	10	Mase Westpac Ltd.	10
Barclays Bank	10	Meghraj & Sons Ltd	10
Benchmark Trust Ltd	10	Midland Bank	10
Beneficial Trust Ltd	11	• Morgan Grenfell	10
Brit. Bk. of Mid. East	10	Mount Credit Corp. Ltd	10
• Brown Shipley	10	National Bk. of Kuwait	10
CL Bank Nederland	10	National Girobank	10
Canada Permanent	10	National Westminster	10
Cayzer Ltd	10	Northern Bank Ltd	10
Cedar Holdings	11	Norwich Gen. Trust	10
• Charterhouse Bank	10	PK Finans. Intl (UK)	10½
Citibank NA	10	Provincial Trust Ltd	11
Citibank Savings	¶10¾	R. Raphael & Sons	10
City Merchants Bank	10	Roxburghe Guarantee	11
Clydesdale Bank	10	Royal Bank of Scotland	10
Comm. Bk. N. East	10	Royal Trust Co. Canada	10
Consolidated Credits	10	Standard Chartered	10
Continental Trust Ltd	10	Trustee Savings Bank	10
Co-operative Bank	*10	United Bank of Kuwait	10
The Cyprus Popular Bk	10	United Mizrahi Bank	10
Duncan Lawrie	10	Westpac Banking Corp	10
E.T. Trust	10	Whiteaway Laidlaw	10½
Equatorial Tst Corp. plc	11	Yorkshire Bank	10

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FOREIGN AFFAIRS: THE EEC

Last haul on the drawbridge

By Ian Davidson

THE British Government has been doing its best to highlight the dignity and the prestige attaching to the Presidency of the European Community, which passed from the Netherlands to the UK on July 1 and which remains in British hands until the end of the year.

These public relations efforts have had, so far as I can judge, rather little impact. The man in the street does not swing along with a jauntier pride, in the knowledge that Sir Geoffrey Howe is out there exercising these august if temporary functions in the Council of Ministers in Brussels, and the man in the street is right.

The presidency requires laborious bureaucratic and diplomatic efforts in managing the Community's legislative processes and in shepherding Commission proposals through *the various levels of the Council of Ministers.* But the road is stony, and the opportunities for winning public applause are few and far between.

In theory, this should be a relatively auspicious year for a British presidency. No major battle of national interest now sets Britain apart from the other member states. Last December's agreement on treaty modifications which introduce more majority voting, will not come into effect until the beginning of next year, after ratification in 12 national parliaments; but *at least the ideological* arguments between the member states over the Community's constitutional future are now out of the way for the foreseeable future.

Moreover, the complete liberalisation of trade in goods *and services inside the Community,* is not merely very close to Mrs Thatcher's heart, it has also been endorsed at last December's Luxembourg summit as the centrepiece of the Community's internal agenda, and can be urged forward with all the vigour of conviction. Finally, the British Government has consulted unusually closely with its Dutch predecessors in preparing the rolling work programme for the rest of this year, so as to waste no time before the summer holidays. Nevertheless, despite all these favourable factors, it has more *fear of disaster than hope of* triumph.

Why then have we been treated to these little fanfares of self-importance? Partly, I suppose, because politicians cannot resist the limelight, however inglorious it may turn out to be; but partly to distract attention from an embarrassing little anti-European rearguard action *still under way in the* House of Commons.

The treaty negotiated between the Twelve in Luxembourg last December was a curious portmanteau of miscellaneous modifications lumped together under the uninformative title of the Single European Act; it is being ratified in Parliament under an equally bland title: The European Communities (Amendment) Bill.

Considering Mrs Thatcher's vast majority in the House of Commons, one might think, and the Government did indeed think, that ratification would slip through like a letter through the post. Not so. The final outcome is not in doubt; but the anti-European rump in the Commons has proved remarkably stubborn in dragging out the ratification process well beyond the allotted time, and has been able to cite, in support of its delaying tactics, critical judgments in committee reports from both Houses of Parliament.

Nobody can seriously pretend that Britain's membership of the Community is an open question; but this does not prevent the anti-Marketeers from moaning at great length over the loss of national and parliamentary sovereignty, or from exaggerating in quite intemperate terms the additional loss of sovereignty implied by the new treaty modifications.

Half-page advertisements have been placed in newspapers by *the British Anti - Common* Market Campaign, one of which made the following assertions:

● The bill "will transfer major powers over legislation and social and economic policy in the UK from the British electorate and Parliament to Brussels and Strasbourg."

● "Power is given to a majority of foreign states to legislate on internal British issues against the wishes and interests of the British people."

● "The Common Market's power to interfere with national policies, which we were promised would be solely economic, is extended by this special Act to include foreign policy and defence."

● "The Act also declares explicitly that the aim of all this is to transform the Common Market into a "European Union" ie a *super-state in* which the individual countries would no longer be independent sovereign states."

These fevered fears bear no discernible relation to what is actually being proposed. In half-a-dozen articles of the Rome Treaty, related to the *elimination* of trading obstacles between the member states, the Bill substitutes majority voting for unanimity but to go from there to the sweeping assertion that this gives power to a majority of foreign states to legislate on British social and economic policy is simply perplexing. Seven articles in the Rome Treaty speak about economic policy; they remain *unchanged. Under social policy,* one article is modified to promote the improvement of working conditions and to develop a dialogue between management and labour "if the two sides consider it desirable."

Why on earth do the anti-marketeers assume that Britain is bound to be out-voted by a majority of fiendish foreigners? There must be some, there may be many occasions when it would be in Britain's interest to be part of the majority. Britain's interests in freer trade in banking, finance and insurance have been frustrated precisely by the veto power of foreign countries, and can be served by majority voting; but this is the side of the coin which the anti-Marketeers do not wish to consider.

Their assertion that "the Common Market's power to interfere with national policies . . . is extended by this special Act to include foreign policy and even defence" is, to paraphrase Winston Churchill's parliamentary euphemism, terminologically inexact. The Common Market has never had any power over either foreign policy or defence, and it will not get any such powers under the Bill.

What the Bill says is this: "The High Contracting Parties . . . shall endeavour jointly to formulate and implement a European foreign policy;" and they will do this by a process of consultations, in the hope of developing common positions. The Community as such has no competence, nor has the Council of Ministers. All that the 12 sovereign states have agreed is that they will take account of each others' views and try to reach a consensus; not merely is there no majority voting, there is no voting at all.

As for defence, the truth is the exact opposite of that claimed by the anti-Marketeers. The High Contracting Parties, says the treaty, "are ready to co-ordinate their positions more closely on the *political and economic* aspects of security." But it goes on : "*Nothing in this* Title shall impede closer co-operation in the field of security between certain of the High Contracting Parties within the framework of the Western European Union or the Atlantic Alliance."

And European Union? For the anti-Marketeers, it is objectionable because it means "a super-state in which the individual countries would no longer be sovereign states." For Mrs Thatcher, the term is objectionable because she cannot discover what it means. For the European idealists it is a pious aspiration of a goal which remains as distant as it is vague. The only thing that is quite clear, is that no government and no country in the Community has plans to disappear from the map.

The Foreign Affairs Committee of the House of Commons is more cautious, but it too gives voice to loud bleats of anxiety, many of which are self-contradictory.

The Committee members are all in favour of the co-ordination of foreign policy by the Community countries; but they are also in favour of *not* co-ordinating foreign policies where national interests conflict; they do not quite believe the Foreign Secretary, when he tells them that there is no compulsion to agree; they fear that the new commitment "could provide grounds for recriminations."

Their anxious bleating continues on the vexed question of the so-called Luxembourg Compromise—the notion that a member state has, in the last resort, the right of a national veto to defend a vital interest. They fear that this right will be undermined by the extension of majority voting, and they distrust the Foreign Secretary's soothing assurances that "the Luxembourg Compromise remains in place untouched and unaffected."

They are right to distrust him, but for the wrong reason. The Luxembourg Compromise does not have, and has never had, *any legal basis: it rests solely* on the ability to persuade other governments not to force a vote on a particularly sensitive issue. It lives only in the mind;

At one level, all this whingeing by the good burghers of Westminster is readily explicable: they do not like the idea that their powers will be eroded to some small but unpredictable extent, and they hate the idea that their rvials in Strasbourg will get more powers. At another, the cumulative effect of the bleating seems to imply a comprehensive failure to grasp that Britain is already irrevocably committed to Europe, a reluctance to face the fact that British interests will in future be increasingly dependent on the European connection and an atavistic assumption that British interests are in conflict with those of other member states. This may finally be the age of the Channel Tunnel, but the burghers are still trying to pull up a medieval drawbridge.

Lombard

Industry's run of good luck

By Samuel Brittan

THE MAIN REASON why pay per head in the UK has continued to rise so quickly in spite of government exhortation is not far to seek. It is that profits have been rising about twice as fast as pay over the past five years.

This is not an environment conducive to pay restraint. It may be true that profits could have increased even more than they did if business had taken advantage of high unemployment, and low and falling inflation, to curb pay rises nevertheless.

There is also a more factual puzzle. How have companies been able to afford both to increase pay, and to increase profits even more, when the Government has followed a fairly tight exchange rate policy which should have made cost *increases difficult to pass on?*

Part of the answer is provided in a table in the June Bank of England Bulletin reproduced here. The figures given are slightly unusual. For they do not show actual changes in labour costs, productivity, raw material costs and so on. They show instead how much changes in each of these items contributed to the rise in final prices of manufactured goods.

For instance, in 1983—a year of high productivity growth—unit labour costs alone would have produced only a 0.2 per centage point rise in output prices. Raw material costs in that year added another 2.4 points. But it was the rise in margins and other unidentified costs that contributed another 2.9 points and brought the total price rise up to 5.5 per cent.

But by 1985 the position had changed. Labour productivity was rising much less, at least according to the statistics, and total unit labour costs rose enough to boost output prices by 3.1 per cent. If raw material costs had been rising at the average rate of the previous three years, they would have contributed another 2.6 percentage points increase to output prices.

It was good luck for British manufacturers that raw material costs were under pressure and contributed much less than normal—only 0.6 percentage points to total cost increases. There was thus room for margins to make another 1.9 percentage points contribution to price inflation.

Preliminary figures so far this year suggest a continuation of the same pattern. They suggest a slight fall in labour productivity, reflecting the pause in economic growth that so few of the forecasters expected in the aftermath of the oil price collapse.

On the other hand, industry's amazing luck with input prices has continued.

How long can this luck continue? Competitors in other countries are also benefiting from falling fuel and raw material prices; and eventually selling prices must come under pressure. Already the rise in UK output prices has come down from 5.5 per cent to 4.5 per cent; and the June monthly CBI survey showed the smallest proportion of companies expecting to increase prices for 19 years, thus suggesting more drastic falls in output price inflation in the months ahead.

Wholesale prices in a number of countries are already falling. In Japan, under the influence of sharp yen revaluation, they have fallen by 10 per cent.

British industry will either *have to face a profits reversal,* or make a firmer stand on pay, or launch another drive on productivity and manning levels. The latter would aggravate the jobs problem and make little sense at the macro level.

THE MAKE-UP OF MANUFACTURING PRICES

% change

Contributions to change in output prices

	Labour costs per head	Labour productivity (minus= gain)	Total unit labour costs	Raw material costs	Margins and other costs	Output prices
1980	12.2	2.5	14.7	3.0	−3.7	14.1
1981	6.7	−2.3	4.5	3.2	1.8	9.5
1982	6.9	−3.9	3.0	2.6	2.2	7.7
1983	5.0	−4.9	0.2	2.4	2.9	5.5
1984	4.6	−3.1	1.5	2.8	1.7	6.1
1985	4.9	−1.8	3.1	0.6	1.9	5.5

Source: Bank of England Bulletin, June, 1986

Letters to the Editor

British Gas privatisation

From Mr S. Hill

Sir,—In 1984-85 British Gas Corporation made a surplus *after meeting all outgoings,* including gas levy and taxation but before provision for depreciation, of just under £900m. The whole of this was applied in meeting new capital expenditure and working capital. The corresponding figure this year could be of the order of £1bn, and again fully absorbed in asset creation.

It now appears British Gas will be floated with a capital of £7bn (or more), including £2.5bn of debt. The annual service of this capital by way of dividends and interest is not likely to be *less than £500m* even in early years. How, then, can this extra burden be found, without either (a) increasing prices to consumers, or (b) slashing the provision for ongoing capital expenditure, or (c) resorting to borrowing to finance most of it?

Regulation of prices is likely to restrain the first option, for a few years. A reduction in capital expenditure would retard future progress of the industry. It would seem then that if the capital programme is to be maintained, as needed, privatised British Gas will resort to persistent borrowing in the future and this, of course, must mean that the consumers, in the long run, must pay for it, meeting an over-increasing burden for interest.

Stanley Wm. Hill.
35c Tranquil Vale SE3.

US tax reform

From Mr M. Cassidy

Sir,—In the general enthusiasm with which the senate finance committee's proposal for tax cuts in the US have been received, it should not be overlooked that there is a price to be paid and part of that price will be borne by British investors.

Most UK direct investors in US property have hitherto benefited from the special treatment of interest payments under the double tax treaty to reduce the total tax which they pay on that investment. This benefit will largely disappear as a result of the proposal to limit the amount of interest deductions which may be offset against the tax liability of a US subsidiary of such an investor. Such investments will be significantly less attractive if this proposal is implemented, particularly in the case of a UK pension fund whose basis of comparison is with competing investments which do not bear tax.

One can understand that foreign investors must be a particular target for raising the necessary revenue to finance tax cuts but what has been overlooked in this case is that the proposal is flatly contrary to article 24 (3) of the double tax treaty between the UK and the US. This article provides that interest paid by a US company to a resident of the UK shall be deductible in determining the taxable profits of the US company provided it is reasonable in amount.

Michael Cassidy,
202 Cromwell Tower, Barbican, EC2.

The ghost of Mr Wilson

From Mr C. Clayton.

Sir,—In "Sir Geoffrey and the ghost of Mr Wilson" (July 1) we are informed that the Lancaster House agreement was "able to bring the (Rhodesian) civil war to an end and establish an independent Zimbabwe on reasonably democratic principles." After the deaths of thousands of black Zimbabweans slaughtered by Mugabe's Fifth Brigade, the establishment of Shona supremacy, the suppression of Joshua Nkomo's largely Ndebele-based support and repeated predictions of a one-party state, "reasonably democratic" scarcely seems an accurate description of Zimbabwe. Perhaps the lessons of the Lancaster House agreement have been learnt south of the Limpopo.

Christopher W. Clayton.
Merton College, Oxford.

Sanctions in the past

From Mr J. Fielding

Sir,—Ian Davidson (July 1) accuses Margaret Thatcher of making on South Africa the same mistakes as Harold Wilson made on Rhodesia. What mistakes? It seems to me that Wilson carried out a fairly successful exercise in damage limitation under difficult circumstances.

Since Rhodesia was in rebellion against the Crown, as the Left, with rich irony, loved to remind us, we had to do something and the choice was essentially between sanctions and armed intervention. The latter might well have succeeded, as Ian Davidson speculates, but would the British public have stood for it, especially if prolonged armed conflict had resulted? Wisely, in my opinion, Wilson opted for sanctions though he must have known that in weeks rather than months the French, Germans, Japanese and many others would have filled the gaps in Rhodesian trade left by Britain, and this in spite of a solemn and binding resolution from the UN. The Tiger and Fearless talks were not failures. They were never really expected to succeed but they served to quieten the gadflies at home and in the Commonwealth.

Mrs Thatcher seems to have an easier task. South Africa is a sovereign state and one may well ask why we should take measures which would damage our economy and lose British jobs and which, even if successful, would be less likely to bring about democracy than to *change the colour of the* tyranny. In practical politics this appraisal means playing for time and conceding as little as possible as slowly as possible.

Finally there is the Commonwealth on which Ian Davidson lays great stress. The essence and purpose of the Commonwealth are not altogether clear, but I am quite sure that they do not include the right to dictate to Britain or to any member state what shall be its foreign policy. If Sir Sony Ramphal or any other Commonwealth dignitary thinks differently, then the sooner we leave the Commonwealth, the better.

J. Fielding.
125 Orrell Road,
Orrell,
Wigan, Lancs.

Tax cuts nobody wants

From the Director General, British Institute of Management.

Sir,—Regarding your article "Tax cuts nobody wants" (July 1) dealing with the Government's failure to comprehend the public's lack of enthusiasm for tax cuts in favour of increases in public spending, you correctly say that this is not a case of "the people do not know what they want." Repeated surveys of UK managers reveal a clear and strong message that no Government Minister should find difficulty in understanding. In response to this institute's Budget consultation earlier this year, 82 per cent of respondents said they were prepared to forgo tax cuts or even pay more in tax to allow for greater spending on hospitals, roads, housing, etc and 60 per cent to see more spending on education. Only 11 per cent sought cuts in personal taxation.

The reasons for this are straightforward. Two things will certainly prevent continued economic growth: the lack of a modern and adequate infrastructure (which will cost more to repair the longer it deteriorates), and, worse at a *time of high unemployment,* the lack of a skilled and educated workforce.

John Constable.
64-78 Kingsway, WC2.

Quirks of the law

From Mr R. Instone

Sir,—Your issue of June 26 gave us news which lawyer readers will find surprising.

In his report of the Trustee Savings Bank's appeal to the House of Lords, David Lascelles (who to be fair is described as Banking Correspondent) informed us that the Law Lords were hearing evidence from counsel for the Scottish depositors. Could you please tell Mr Lascelles that counsel provide, and the Law Lords hear, not evidence but argument?

More disturbing was a report, in another column on the same page, of a debate between Sir Alan Leslie, the president of the Law Society, and Robert Alexander, QC, under the heading "Subdivision of solicitors predicted." I do hope we are not going to make mincemeat of our professional colleagues.

Ralph Instone,
7 New Square,
Lincoln's Inn, WC2.

Exchange control

From Mr R. Guscott

Sir,—A General Election is constitutionally certain within the next two years. There is a distinct possibility, perhaps a probability, that the present Government will not be returned. The financial community believes (rightly or wrongly) that a Labour, Alliance or coalition Government will impose exchange controls as soon as elected.

To hedge against this outcome capital is starting to leave this country. Already stockbrokers are advising their clients to begin realising UK investments and move their money abroad. If the Government's perceived *chances of defeat increase* as the election approaches what is now a stream will become a torrent.

Regardless of the general desirability or otherwise of exchange controls, the best interests of the country will be served by the Government imposing exchange controls now, before the stream becomes a torrent, with a commitment to lift them again as soon as it is re-elected.

R. J. Gucott.
58 St Peters Street,
St Albans, Herts.

FINANCIAL TIMES

Monday July 7 1986

Hilary Barnes assesses the record of a fragile four-way coalition

Danish balancing act begins to falter

ON SEPTEMBER 10, Mr Poul Schlüter's four-party minority government is due to celebrate four years in office, the longest stretch served by a Danish non-socialist government since the 1920s. According to Mr Schlüter, one of his own government's greatest fans, its results have been "unbelievably" and "sensationally" good.

The Prime Minister's wife, a classics teacher, has apparently failed to inform him what happens to victims of hubris. So far, however, the gods have been kind to Mr Schlüter.

Initially, he was helped along by the international economic recovery in 1983. This year, his economic policies were saved from shipwreck by the fall in oil prices.

The Danish Government's "unbelievably" good results include a strong recovery in domestic demand, private consumption and investment and a sustained increase in private sector employment.

Unemployment has fallen from a peak annual average of 10.7 per cent in 1983 to about 8.5 per cent; a budget deficit in 1983 of about 9 per cent of gross domestic product (GDP) has been turned into a surplus this year, a turnround unparalleled by any other member of the Organisation for Economic Co-operation and Development.

But while the domestic economy is in better shape and the government's achievements include halving annual wage increases from 10 to 5 per cent, the balance of payments problem has got steadily worse as the domestic boom has sucked in imports and retarded exports.

The visible trade gap widened from DKr 2.1bn in 1983 to DKr 12bn ($1.5bn) last year. The current balance of payments deficit, burdened by the interest on a net foreign debt of DKr 234bn, or about 38 per cent of GDP, increased from DKr 11.1bn in 1983 to DKr 28.4bn last year, some 4.6 per cent of GDP.

In the first four months of this year, exports barely increased, while imports rose by about 2 per cent despite the big decline in energy costs. The trade gap widened to DKr 6.5bn in the four months from DKr 5.6bn in January-April last year.

The government hopes the external deficit is about to begin to improve. Last December it took DKr 8bn out of circulation, mainly by cutting local government investment, and in March it increased taxes by DKr 10bn, primarily through a sharp increase in energy taxes to offset falling oil prices.

The failure to get the balance of payments right is probably the main reason why the government is now beginning to feel discouraged, but there are other factors.

It has alienated some of its supporters by presiding over an increase in taxation as a percentage of GDP from just under 43 per cent in 1982 to 51 per cent this year. The last comparable increase in the tax burden, ironically, was under Denmark's last non-socialist government in 1968-71.

The government's authority is also constantly undermined in the Folketing (parliament). Its economic policies win support from a centre-right majority, but this is replaced by a centre-left majority on defence and foreign policy issues. So far the Government has suffered 19 defeats in the Folketing on such issues as Nato deployment of intermediate range missiles, support for nuclear free zones and, most recently, the implementation of a total ban in trade in goods and services with South Africa.

Critics also say that beyond the task of "economic reconstruction," the government lacks vision and has little idea where it is going.

The government, meanwhile, must be disappointed that, despite the big domestic economic improvements, opinion polls point to the election, for only the second time, of an absolute majority for Denmark's socialist parties. These comprise the Social Democrats the main opposition party, and two parties further to its left, the Socialist People's Party and the Left Socialists.

Mr Schlüter is not too perturbed by the opinion polls. He thinks that voters will rally to his coalition if they are faced with the possibility of a Social Democratic government in alliance – possibly even in coalition – with the anti-EEC and anti-Nato Socialist People's Party.

Mr Schlüter resents the charge that it is no part of a non-socialist government's task to raise the tax burden. When the coalition took over in the autumn of 1982, he points out, it looked as though the 1983 budget deficit would climb to 15 per cent of GDP. Tax increases were unavoidable.

Since 1982, the government has brought about an almost complete standstill in real government expenditure.

The next election must be held in January 1988 at the latest.

Mr Schlüter has said that the Government will spend the summer working out an offensive strategy, including a business industrial policy "with clout" to help improve the export performance.

This presumably will be the programme on which the coalition of Mr Schlüter's Conservatives, the Liberals, led by Mr Uffe Ellemann Jensen, the Foreign Minister, the Christian People's Party and the Centre Democrats will fight the next election.

Channel Islands swamped by cars

By John Griffiths in London

FORD, the UK subsidiary of the US motor group, and Austin Rover, the volume cars subsidiary of Britain's state-owned BL, have become involved in a row in the Channel Islands, where independent motor traders are criticising them for registering extraordinarily large numbers of cars for hire.

The traders claim this is jeopardising their business. They accuse the two companies of using the unique tax situation in the Channel Islands to improve market share figures at little or no cost to either themselves or the car hire companies.

Based on 1985 trends, by the end of this year one new car will have been registered on Jersey for every seven of the island's inhabitants. A similar situation will prevail on Guernsey.

Ford expects 12,000 of its cars to be registered on Jersey and Guernsey this year while Austin Rover expects 3,500 to 4,000 registrations.

In a submission to Mr Don Filleul, a Jersey deputy who has been asked to pursue the case with the island governments, the traders blame Ford and Austin Rover for flooding the islands with new hire cars which in some cases have returned to mainland Britain within two months with only nominal mileage for resale at auction as used cars.

Mr Julius Olsen, president of the Jersey Motor Trades Association, after a meeting with Mr Filleul last week, acknowledged that Ford, Austin and the large hire companies were acting legally in registering the cars.

But the traders complain that contrary to the spirit of the legislation relating to hire cars – which intends that they should be used primarily by visitors – ex-hire cars, some only three months old, are being offered at exceptionally low prices on leases to resident islanders.

The result, according to the association, is that the market for both new and used car sales for other manufacturers is disappearing rapidly.

No car tax or value-added tax is payable on the Channel Islands, so the cars are substantially cheaper than on mainland Britain

The larger hire companies are offered bonuses: the more cars they take, the bigger the bonus. As a result some hire cars are being changed every two months. The bonuses are such that, when a large number of cars is taken, a hire car needs to do little mileage for it to be handed back to the manufacturer at a profit to the hire company.

Church of England has £300m indirect investment in S. Africa

BY ROBIN PAULEY IN LONDON

THE CHURCH of England, whose General Synod – its governing body – debates South Africa this morning, has nearly £300m ($462m) of indirect investment in South Africa, including £21m in four British companies which pay black workers less than the target cash wage recommended by the EEC code of conduct.

Statistics produced by the Department of Trade and Industry, the Labour Research Department and the Financial Times editorial research unit show that of the 195 companies in which the church had holdings in excess of £1m in December, 77 had South African connections. The majority are British companies and account for more than 50 per cent of the church's £477m UK equity portfolio.

In their last annual report the Church Commissioners admitted that in its British equity portfolio 65 companies had investment links with South Africa. But it added: "We seek to ensure that these companies follow enlightened employment and social policies in South Africa. We therefore monitor the activity of any company having any interest in South Africa to establish that they operate employment policies in line with the EEC code of conduct or, in the case of the United States, the Sullivan Principles.

"Where evidence of non-compliance with the codes is found we exert pressure at the highest management level for the company to come into line ... If, however, a company fails to take the appropriate action the Commissioners are prepared to sell the shares. It was because of its non-compliance with the Sullivan Principles that we sold our stake in Carnation in 1984."

But the EEC code of conduct for companies with interests in South Africa has a minimum pay target for black workers of 50 per cent above subsistence level, which would have required a minimum monthly pay of R525 in June 1985, according to the Ethical Investment Research and Information Service (Eiris).

Eiris reported earlier this month that a number of British companies had minimum rates below this, including four in which the Church Commissioners have substantial investment: BET, which paid R257, Thorn EMI (R252), BPB Industries (R206) and British Petroleum (R198).

Some companies argue that benefits in kind make up for the shortfall, but the code of conduct refers to cash wages to which benefits in kind are not supposed to be added.

A small number of other companies do not even comply with the reporting requirement under the EEC code of conduct, so their minimum pay levels are not known. In a new report prepared in advance of today's General Synod debate, Eiris said there were four such British companies – Trusthouse Forte, Siebe, Sun Alliance and Vantona Viyella. The Church Commissioners have investments in each of these companies.

The research statistics show that of the 33 British capital goods companies in which the Church Commissioners have investments of over £1m, only 10 are listed as having no connections with South Africa as of December – Amersham International, Brammer, Coalite Group, Costain Group, Electrocomponents, English China Clays, Magnet and Southerns, Mowlem, RMC Group, and Steetley. Smiths Industries, in which the commissioners have a £3.3m investment, is reported to have withdrawn its investment from South Africa.

During 1985 the Church Commissioners dropped 101 UK equity holdings worth more than £1m each from its portfolio as part of its normal investment management. Only three had South African links.

Skirmishes as Ulster marching begins

By Hugh Carnegy in Portadown

THE ROYAL Ulster Constabulary (RUC) and Protestant loyalist marchers fought a number of angry skirmishes yesterday as a huge police and British army presence was called out in Portadown, County Armagh, to keep order during an Orange Lodge church parade through two predominantly nationalist areas of the town.

Tension between the local majority Protestant and minority Catholic communities deepened almost perceptibly as the two sides hurled abuse and occasionally stones at each other.

A number of demonstrators and policemen were injured, including one RUC officer hit in the neck by a dart. A Catholic church was stoned and windows smashed in at least one Catholic-owned house.

Although about 70 similar marches elsewhere in Northern Ireland passed off peacefully yesterday, it was an ominous foretaste of events next weekend when celebrations by Protestant Unionists of the victory of William of Orange over King James II at the Battle of the Boyne in 1690 reach a climax.

The marches have taken on a special significance this year as loyalists regard them as a chance to vent their anger against the Anglo-Irish agreement, which gives Dublin a role in Northern Irish affairs.

The loyalists see the government's policy on marches as being dictated by Dublin through the agreement. At the weekend, Mr Peter Barry, the Irish Foreign Minister, repeated his concerns for the safety of Catholics during the marching season and said he was also "seriously concerned" by remarks in a newspaper interview by Mr Tom King, Northern Ireland Secretary, that the Anglo-Irish accord could be altered if Unionists would start talks with the government. Mr Barry said any changes would have to be with the full consent of both governments and he was seeking clarification of Mr King's remarks.

Portadown has become the focus of "the marching season" because since last summer the RUC has refused to let loyalist demonstrators there parade through Catholic districts as they did previously. Yesterday's march was made an exception ostensibly because it was a traditional church parade but also apparently in an attempt to draw some of the sting from loyalist feeling against bans on marches in Portadown on July 12 and July 14.

The day was a vivid illustration of the present predicament of the RUC. Frequently they were forced to confront two hostile crowds at once with the army in a prominent but supporting role. One young officer remarked: "There are three tribes in Northern Ireland now and we are the third."

Trouble began when several senior RUC officers were ejected amid scuffles from an Orange hall in the centre of town where they were attempting to negotiate with march leaders over marshalling the parade, which was joined by more than 1,000 men in orange sashes led by a pipe band.

Police said they wanted to ensure that two extremist politicans, Mr George Seawright, a Scots-born former member of the Democratic Unionist Party, and Mr Jim Wells of the DUP, were not allowed in the parade, supposed to be of local Orangemen only.

When the marchers reached "The Tunnel", a bridge leading to the Catholic Obins Street, police blocked the road to prevent the two men proceeding. Fighting then erupted.

Howe mission to S. Africa in jeopardy

Continued from Page 1

Mandela, the imprisoned African National Congress leader, and the lifting of the ban on the ANC and other political opposition groups.

The release of Mr Mandela and the lifting of the ban on the ANC has so far been rejected by Pretoria because of the black nationalist leader's and organisation's refusal to renounce violence as a prior condition.

Significantly, a government spokesman in Pretoria yesterday said that, if President Botha were to meet Sir Geoffrey at any stage, he would insist on "certain conditions" before any negotiations took place. He did not spell out these conditions.

The difficulties over Sir Geoffrey's mission come as a further embarrassment to the government, particularly as the Foreign Secretary was said to be reluctant to assume the task in the first place.

The Labour Party opposition will be renew ing its attacks on Mrs Thatcher over her opposition to sanctions.

Holtzbrinck bids $52m for Scientific American

BY WILLIAM HALL IN NEW YORK

VERLAGSGRUPPE Georg von Holtzbrinck, West Germany's second biggest publishing group, has offered to buy Scientific American, the US publisher of one of the world's most famous science magazines, for $52.6m.

Scientific American said late last week that it had agreed to be bought by the West German publishing group. However, a last-minute $61m offer from one of the other half dozen companies which had put in bids, has led to some doubt whether the Holtzbrinck offer will be finalised.

Scientific American put itself up for sale last March. The group's flagship monthly magazine, which was founded in 1845 and is published in nine languages, has been suffering from declining advertising revenues and fierce competition from newer rivals. Circulation has slipped to 600,000 and the magazine lost $475,000 on revenues of $24m last year. Five years ago, it earned $3m on sales of $28m.

The group's other operations, which include scientific textbook publishing and a monthly medical guide for physicians, are said to be considerably more profitable than the magazine.

Salomon Brothers, the group's investment banker, is understood to have approached 35 companies and 17 expressed interest in the magazine whose contributors have included 80 Nobel prizewinning scientists over the years. The list of potential buyers was reduced to seven companies which submitted sealed bids on June 16.

Among the companies which are thought to have put in offers are Time Inc, the Economist magazine, International Thomson Organisation and a Dutch concern, Elsevier. Pergamon Press, which is controlled by Mr Robert Maxwell, the UK publishing magnate, is also thought to have been involved in the bidding, and there are reports that Mr Maxwell was responsible for the surprise last-minute bid for $61m.

UK to consider radical plan for inner cities

Continued from Page 1

trol over areas designated as UDCs which are then run by a government-appointed board with government funds.

The likely site for Birmingham's new UDC would be in the Aston and Nechells area close to Handsworth, which suffered serious rioting last year.

Birmingham insists it has the necessary expertise and can best deal with redevelopment.

The point was made to Mr Ridley by a recent deputation from Birmingham, which included both the Labour and Conservative council leaders and the director of the Birmingham Chamber of Commerce. Mr Ridley gave no clear indication of his thinking, but said he would visit Birmingham on July 30 and listen to any proposals, by which time the Cabinet will have taken a decision in principle.

One idea being explored in Birmingham is to use the Business Expansion Scheme – the scheme which gives tax concessions for investment in new ventures – for urban renewal projects.

One consortium member commented: "If there are tax advantages for storing wine, why not for such a worthwhile social cause as rebuilding our cities?" Detailed proposals are expected to be made before any representation is made to the Treasury.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	27	81	Dubrovnik	S	26	79	Malta	[illegible]	[illegible]	[illegible]	Rhodes	S	27	81
Algiers	S	26	97	Edinburgh	C	16	61	Manchester	C	16	61	Rio de J'o	[illegible]	[illegible]	[illegible]
Amsterdam	F	19	66	Faro	S	30	86	Manila	[illegible]	[illegible]	[illegible]	Rome	[illegible]	[illegible]	[illegible]
Athens	S	29	84	Florence	S	29	84	Melbourne	[illegible]	[illegible]	[illegible]	Salzburg	[illegible]	[illegible]	[illegible]
Bahrain	S	37	99	Frankfurt	C	21	70	Mexico City	[illegible]	[illegible]	[illegible]	San Francisco	[illegible]	[illegible]	[illegible]
Barcelona	F	29	84	Funchal	C	24	75	Miami	[illegible]	[illegible]	[illegible]	Seoul	[illegible]	[illegible]	[illegible]
Beirut	—	—	—	Geneva	F	20	68	Milan	C	26	79	Singapore	[illegible]	[illegible]	[illegible]
Belfast	R	15	59	Gibraltar	[illegible]	[illegible]	[illegible]	Montreal	F	17	63	Stockholm	[illegible]	[illegible]	[illegible]
Belgrade	S	31	88	Glasgow	R	14	57	Moscow	C	21	70	Strasbourg	[illegible]	[illegible]	[illegible]
Berlin	R	19	66	Guernsey	C	16	61	Munich	C	18	64	Sydney	[illegible]	[illegible]	[illegible]
Biarritz	S	15	59	Helsinki	C	19	66	Nairobi	[illegible]	[illegible]	[illegible]	Tangier	[illegible]	[illegible]	[illegible]
Bombay	[illegible]	[illegible]	[illegible]	H. Kong	F	30	86	Naples	S	28	82	Tel Aviv	[illegible]	[illegible]	[illegible]
Bordeaux	R	17	63	Innsbruck	C	21	70	Nassau	[illegible]	[illegible]	[illegible]	Tenerife	[illegible]	[illegible]	[illegible]
Boulogne	[illegible]	[illegible]	[illegible]	Inverness	R	15	59	New Delhi	[illegible]	[illegible]	[illegible]	Tokyo	[illegible]	[illegible]	[illegible]
Brussels	C	18	64	I.o.Man	[illegible]	[illegible]	[illegible]	New York	[illegible]	[illegible]	[illegible]	Toronto	[illegible]	[illegible]	[illegible]
Budapest	S	21	70	Istanbul	F	26	79	Nice	[illegible]	[illegible]	[illegible]	Tunis	[illegible]	[illegible]	[illegible]
B. Aires	S	12	54	Jakarta	S	[illegible]	[illegible]	Nicosia	[illegible]	[illegible]	[illegible]	Valencia	[illegible]	[illegible]	[illegible]
Cairo	S	37	99	Jersey	C	16	61	Oporto	F	21	70	Venice	[illegible]	[illegible]	[illegible]
Cape Town	S	18	64	Jo'burg	S	[illegible]	[illegible]	Oslo	S	22	72	Vienna	[illegible]	[illegible]	[illegible]
Caracas	C	21	70	Las Palmas	[illegible]	[illegible]	[illegible]	Paris	C	17	63	Warsaw	[illegible]	[illegible]	[illegible]
Casablanca	S	23	73	Lisbon	C	26	79	Peking	[illegible]	[illegible]	[illegible]	Washington	[illegible]	[illegible]	[illegible]
Chicago	C	33	91	London	C	18	64	Perth	[illegible]	[illegible]	[illegible]	Zurich	R	16	61
Cologne	C	18	64	Los Angeles	C	18	64	Prague	F	20	68				
Copenhagen	R	18	64	Luxembourg	C	17	63	Reykjavik	F	8	46				
Corfu	S	28	82	Madrid	S	33	91								
Dallas	C	—	—	Majorca	S	28	82								
Dublin	C	15	59	Malaga	S	33	91								

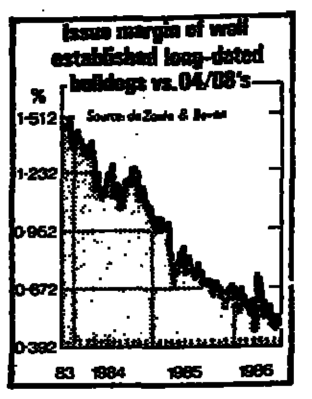
Readings at mid-day yesterday: C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

THE LEX COLUMN

Bulldogs off the leash

The small detonation should be heard in the fixed interest markets this morning as the trade in bulldogs – sterling bonds issued in London by foreign borrowers – moves to dual capacity. If the ten or so market makers who start this morning can make enough of a bang, generating enough liquidity to cover their costs, it will be a good augury for the still more crowded new gilt-edged market. If all that the contestants do for themselves is gain experience in making a book, and put their new back-office systems to work, it may still be a worthwhile rehearsal for October.

Though there must be a doubt whether there can be enough volume to support two or three times as many market makers as there were jobbers before the weekend, liquidity should quickly improve, and so should the spreads. The true size of the new market will not be settled until gilt-edged trading settles down after October, but there is a good chance that a more liquid secondary market, with finer prices, will make bulldogs more attractive to borrowers, who can get better terms. And it is that sort of virtuous spiral, after all, which is supposed to justify the bigger bangs of the months ahead.



Financial Services

The parliamentary draftsmen probably did no worse a job on the Financial Services Bill than the average piece of legislation emerging from their office. But even now there is much wrong that ought to be sorted out in the House of Lords, where the bill is due to arrive this week.

The difficulty with the bill is that it starts from an all-inclusive definition of investment – and investment business – which has then to be specifically whittled down to allow professionals to get on with their normal work. In practice, almost every profession will require its own collection of loopholes, and no doubt the sharks will take advantage of the exemptions provided. But not everybody will have had the foresight or advice to identify the ways in which the bill will catch them.

The Association of Corporate Treasurers has at least discovered that its members could be thrown in jail if they continue to perform the sort of task they now regard as routine. At its simplest a corporate treasurer who was asked by a subsidiary what it should do about financing forthcoming imports might be giving investment advice if he replied, "buy dollars forward." He could face a further criminal charge if he then carried out the transaction on the subsidiary's behalf. Clearly such advice and dealing should be exempt from the legislation.

The Association is also worried that if, for instance in the course of a bid battle or at a company meeting, a board of directors recommended shareholders to vote in a certain way it would be deemed to be giving investment advice without being authorised to do so. The bill could also limit companies' ability to arrange export credit, buy shares in other companies or issue warrants giving the right to buy their own shares.

So far the Department of Trade and Industry has been commendably accommodating in its readiness to put down amendments where lobbyists have made a case for them: the International Securities Regulatory Organisation is now reasonably happy with its lot. When the bill finally becomes law, sometime next year, there could still be a lot of people caught in the shark-netting, and crying to the Secretary of State to help them with further special clauses. He may need to be pretty tolerant in his interpretations.

News on Sunday

The image of newspaper ownership as an expensive pastime of the rich and would-be influential is so deep-rooted that it has not yet been completely eradicated by the revolution that is taking place in Fleet Street. The share prices of the quoted groups are beginning to see the benefits of cost reductions from new technology and Wapping, though the unquoted Daily Telegraph's latest results show just how expensive in fixed capital the changeover to new printing methods can be. New newspapers must overcome traditional City scepticism, partly confirmed by the less-than-brilliant launch of Today, if they are to attract equity capital. News on Sunday, due to launch next March, and now looking for £6.5m of equity, starts with another possible disadvantage in trying to raise City money – its left-wing editorial policy.

No doubt any qualms on that front will be soothed if investors expect an adequate return on their money. If the figures in the prospectus from News on Sunday Publishing prove attainable and profits of nearly £3m are made in the year to March 1990, investors may expect a compound 35 per cent rate of return by the end of the third full year. A £1 investment made now would be worth nearly £3 in March 1990 on the assumption of a 35 per cent tax charge and an earnings multiple of 10. At that stage the group would be considering some sort of Stock Exchange quotation.

Those two assumptions do not sound unreasonable. But they are in turn based on a number of rather critical hypotheses covering industrial disputes, inflation, interest rates and, most important, circulation. A 100,000 difference from the central expectation of a 1.1m circulation by 1990 gives a best and worst rate of return of 47 per cent and 19 per cent.

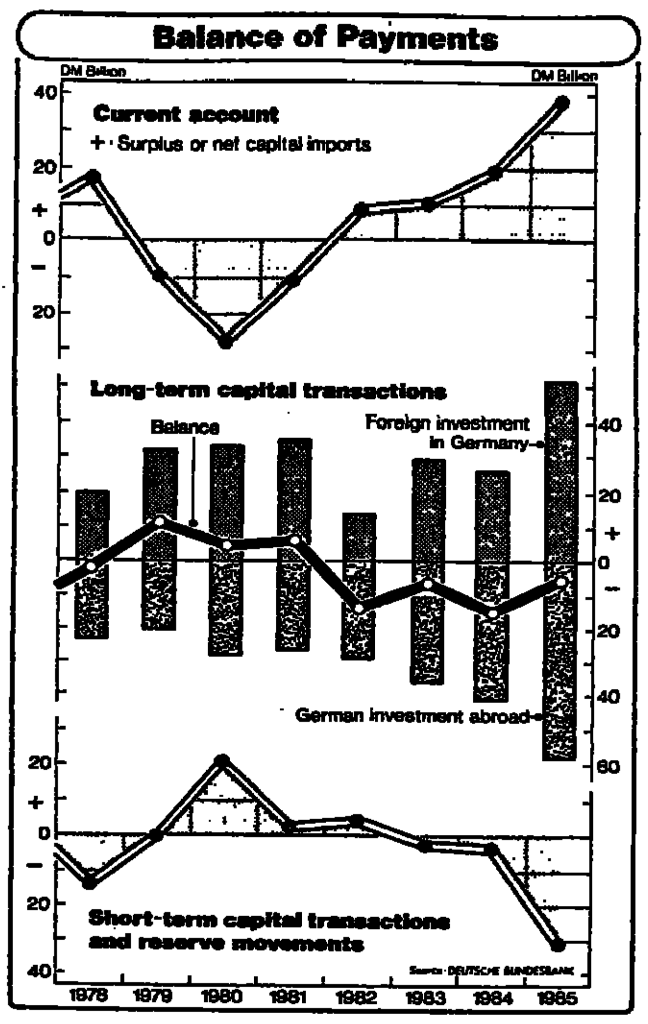
But if the circulation figure settled at much less than a million, the paper could quickly run out of cash. The assumed circulation is based on market research conducted last Octoberwhich pointed to a gap in the market for a more serious Sunday tabloid. Like the Independent, the daily due to appear in October, News on Sunday expects to gain a large chunk of its readers by expanding the total market as well as taking from other papers. Unbelievers argue that newspaper readership is already very high in the UK and that it will be hard to expand it further, and that readers are slow to change the paper they are used to. Nor will rival papers sit back and watch their market share slip away. And who knows how many more newspapers might start up over the next few years?

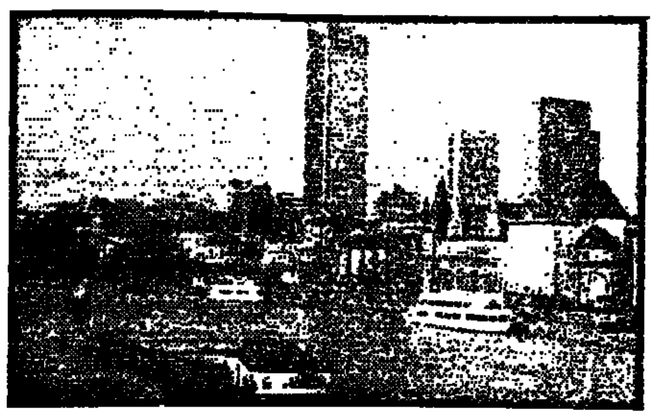
SECTION III

FINANCIAL TIMES SURVEY

West German
BANKING, FINANCE AND INVESTMENT

Profits are booming: but have German banks got what it takes to compete in the world game? Native caution could prove a disadvantage - yet it could also help them avoid costly errors.





Banking towers across the River Main . . . the financial district of Frankfurt

Well set to win new business

By Jonathan Carr
in Frankfurt

ON THE FACE of it, the West German banks are doing rather too well for their own good. Their booming profits have recently reawakened the old domestic debate about whether the banks are too rich and powerful.

In truth, however, the argument is rather beside the point. The really acute question is whether the banks, despite their present strong showing, have what it takes to be successful players against ever tougher competition in fast-changing world markets.

The debate about the power of the banks tends to be influenced by the business cycle, intensifying when the economy improves and receding when it gets worse. In the last recession little was heard about the banks' power. Much more was heard about their awkward responsibility for bailing out floundering companies and debt-ridden countries.

Now the boot is on the other foot. For the past few years the banks have enjoyed an almost ideal constellation at home. Steady economic growth and falling interest rates have helped to heal the corporate sector as well as offering the banks the chance to cut funding costs faster than lending rates.

The once-ridiculed German stock market has grown in diversity and size. Last year, it even exceeded London's in turnover terms, although it remains well behind New York and Tokyo.

Moreover, and not unconnected with the other two developments mentioned, West Germany has had a centre-right Government dedicated to cutting state borrowing and encouraging business. Naturally, bankers and industrialists grumble that the government has not fulfilled all their hopes, but they know in their hearts that they can hardly expect a better one.

Frankly, bankers who failed to prosper under these conditions should probably consider leaving the profession. In fact, most have done well. Earnings have soared, enabling banks greatly to strengthen their capital and reserves.

By general consent, the German banks are among the best padded in the world against new shocks from the debt crisis, but because of their "hidden" reserves it is hard to find out just how well padded they really are.

Even the tougher capital-to-lending ratios of the newly-revised West German credit law are giving few banks trouble. A year or two ago the proposed rules were a source of worry and some banks fought hard to ensure there would be a lengthy transitional period before the new ratios had to be applied in full.

Nowadays this is no more an urgent discussion topic than the debt problem which simmers menacingly in the background but rarely flares up. The German banks, rather late in the day, gave their support in principle" to the US Baker Plan—and that, for the present, is that.

Besides all this the Bundesbank (central bank) has done quite a lot in the last two years to make the German capital market more attractive. It successfully lobbied the Government into dropping the coupon tax which foreigners had to pay on the interest they received from German domestic bond investment.

It also gave the green light to financial novelties like floating rate notes, zero coupon bonds and currency swaps which it had previously opposed. Most recently, it slightly relaxed its minimum reserve rules and allowed the introduction of D-Mark denominated Certificates of Deposit, although these have so far been cold-shouldered by the German banks.

The Bundesbank's motives are clear enough. It wants to boost the competitiveness of "Finanzplatz Deutschland" vis-à-vis foreign centres, thus encouraging net capital inflows and a buoyant D-Mark. This "further liberalisation" policy (as the Bundesbank likes to call it to emphasise that the German capital market was pretty liberal even before) is something of a double-edged sword for the German banks.

It gives them domestic access to new instruments they did not have before but it also brings them tougher competition from foreign banks on their home territory.

The foreigners have been moving in strongly, attracted by the new opportunities, and have penetrated several of the bastions long held by the German banks alone. Most recently, foreign banks have been permitted to take part in the Federal bond consortium (which places government, post and railway bonds) with a 20 per cent quota which German banks claim is excessive.

Just over a year ago the foreign banks were also allowed to lead-manage D-Mark Eurobond issues, lucrative business previously denied them. Only the Japanese were excluded then on the grounds that Tokyo did not offer German banks a reciprocal benefit. But even the Japanese are likely to be allowed to lead-manage in a few months' time.

The bond-issuing business catches a lot of the headlines these days but there is another field where the German banks may feel the pinch of foreign competition more strongly in due course. That is in the battle for business with the "Mittelstand" — medium-sized, often family-run businesses which have plenty of ideas but often need financial advice as well as funds.

Here the three biggest Swiss banks, all of which are now established in Germany, may give the domestic banks a lot to think about. That applies above all in southern Germany, where the Mittelstand especially flourishes—just across the Swiss frontier.

It might seem absurd to suggest that the well-entrenched German banks have much to fear, with their branches all over the country from Flensburg in the far North to Garmisch-Partenkirchen in the south. But all those branches show up one of the problems. West Germany is already over-banked, with one full service branch for fewer than every 1,500 inhabitants (and the population is declining).

It is true that the German Antitrust Act looks anachronistically overprotective of the banking sector as a whole, compared with other industries. But it would be wrong to suggest that competition between the "big" commercial banks, regional banks, savings banks, co-operatives and so on is not fierce and getting fiercer.

Moreover, the Federal Post Office is gradually boosting its quasi-banking activities while the insurance companies—somnolent giants, are pondering an expansion into "financial services." Now come the foreigners, too, hungry for a slice of the rich German pudding.

The other side of the coin is that the German banks have new chances as well as challenges, at home and abroad. In principle as "universal banks," they are extraordinarily well structured to scoop up new business in fast-deregulating financial markets.

A decade or so ago London and New York would tend to look in horror at a German system under which banks could take deposits, make loans, underwrite securities and make mergers and acquisitions—all "under one roof," as it were.

Now "big bangs" and lesser upheavals across the world are breaking up the old structures and the "universal" system looks more like a model than a source of outrageous privilege. In a sense, the Germans were already ready for take-off when others were redesigning their rockets.

In practice the German banks have neither been quick to expand geographically nor nimble in making use of new financial instruments. Naturally there are exceptions. German banks long ago set up shop in force in Luxembourg driven there by the Bundesbank's minimum reserve rules. Several have already braved the wearying negotiations needed to open (partly-owned) securities operations in Tokyo and others will follow.

Deutsche Bank, most strikingly, moved all its non D-Mark Eurobond business from Frankfurt to London. an act which, perhaps more than anything else, shocked the Bundesbank into its new liberalisation programme at home. But compared with the size of the West German economy and trading interests, as well as the pace of financial development worldwide, the banks' activities have been relatively modest.

There are probably two reasons for this. One is that the banks were in any event slow to venture abroad again after the 1939-45 war. After all, the big German banks were split up by the Allies and it took time to regain a unified structure. When the banks finally went abroad again they did so cautiously and often in co-operation with wider European banking groups.

That is changing. Witness Deutsche Bank's moves to take over step-by-step the European Asian Bank which it previously

CONTINUED ON PAGE 2

Top 10 West German banks

	World Group balance sheet totals in DMbn 1985	1984
1 Deutsche Bank AG, Frankfurt	242,700.0	232,300.0
2 Dresdner Bank, Frankfurt/M.	188,664.0	174,723.0
3 Westdeutsche Landesbank Girozentrale Düsseldorf	142,109.0	141,494.0
4 Commerzbank, Frankfurt/M.	137,224.0	122,687.0
5 Bayerische Vereinsbank, Mü.	132,399.0	124,160.0
6 Bayerische Hypotheken-und Wechselbank, München	112,640.0	105,137.0
7 Bayerische Landesbank, Girozentrale, München	108,271.0	104,825.0
8 DG Bank, Deutsche Genossenschaftsbank, Frankfurt	103,745.0	83,240.0
9 Norddeutsche Landesbank Girozentrale Hannover+Braunschweig	92,615.1	88,178.9
10 Kreditanstalt f. Wiederaufbau	85,769.0	78,538.0

CONTENTS

Liberalisation

Responding to deregulation

THE BUNDESBANK (central bank) has been called many things in its time but not, so far, "the foreigners' best friend." Perhaps it is about to earn that title.

Last year opened the way for foreign banks in West Germany to lead-manage D-Mark Eurobond issues. From this month those banks are also able to take part for the first time in the consortium which places bonds of the Federal Government, Post Office and state railways (Bundesbahn).

Many German banks already in the consortium complained that the Bundesbank was going too far in offering foreign banks a quota in the syndicate of as much as 20 per cent. It listened patiently to this objection, but still went ahead with its plan.

The Bundesbank's actions are dictated by more than altruism. In both cases mentioned the relaxation applies only to foreign banks which are incorporated in West Germany with a full banking licence.

In other words the central bank *is doing what it can* to ensure that D-Mark issuing business stays firmly anchored in the Federal Republic and is carried out by institutes on which it is able to keep a sharp eye.

But the Bundesbank is also reacting to the growing internationalisation and deregulation of financial markets, which have important implications for West Germany and its currency.

Since the 1970s a lot has changed *for the Bundesbank.*

In those days the bank feared that the D-Mark would be drawn into playing an ever greater part as a reserve currency. Heavy capital inflows, it was thought, would make control of money supply (and hence of inflation) more difficult, while the currency's increasing strength would weaken the price competitiveness of West German exports.

The years 1979-81 changed all that. *The country went into* current account deficit and the Bundesbank felt forced to take drastic steps to staunch big outflows of funds and prop up the D-Mark. In 1982 the current account was back in the black again and the country's overall economic position began steadily to improve — but that did not simply signal a return to the old days.

Policy-makers faced two closely-related questions. How could the role of the D-Mark be bolstered durably and how could Germany's financial markets, as well as its economic "fundamentals," be improved? It gradually dawned on monetary officials that Germany, for all its excellence in manufacturing industry, was in danger of missing the bus as a financial centre in the face of sharply rising competition, above all from London, New York and Tokyo.

Almost all the liberalisation steps (the Bundesbank prefers to call the process "further *liberalisation*" to underline that German capital markets were pretty liberal even before) over the past two years must be seen in that general context.

They began with the abolition, from August 1984, of the notorious coupon tax which foreign investors had to pay on the interest they received from German domestic bonds. They continued in May last year with the abolition of the sub-committee of German banks which used to set the size and timetable of D-Mark Eurobond issues.

Simultaneously, foreign banks were allowed at last to lead-manage these issues, with the exception of Japanese banks barred *on the grounds* that Tokyo did not offer German banks reciprocal advantages.

At the same time the Bundesbank gave the green light to new financial instruments on which it had previously frowned — *including Floating Rate* Notes, zero coupon bonds and currency swaps.

In further moves taking effect this May, the Bundesbank somewhat relaxed its tough minimum reserve requirements *(the sums banks have to deposit* interest-free with the Bundesbank) and has given the go-ahead to the issue of D-Mark-denominated Certificates of Deposit (CDs). So far, however, only one bank is known *to have actually issued* D-mark CDs in Germany and that is a foreign one—Morgan Guaranty.

Despite the slow start on CDs, all these steps together have gone some way to hit the target that German monetary authorities *aimed for.* The greatly increased attraction of German financial markets is seen most clearly by the growing number of foreign banks setting up in Frankfurt and other cities. But a glance at the country's capital *account is revealing too.*

Last year long-term capital exports from Germany rose to DM 58bn after DM 42bn in 1984, not least because German residents were buying a lot of high-yielding foreign currency bonds. But at the *same time long term* capital imports doubled to DM 52.1bn from DM 26.3bn in 1984.

One key reason was that foreigners, freed from the irksome coupon tax, invested DM 31.3bn in German bonds after only DM 13.8bn a year earlier.

Foreign purchasers thus moved to join the banks as the main group of buyers on the German bond market.

The overall result was that the country's long-term capital deficit more than halved last year to DM 6.3bn from DM 15.7bn in 1984. That modest 1985 shortfall exerted no real downward pressure on the D-Mark exchange rate in view of the buoyant current account surplus, which almost doubled to close to *DM* 40bn.

Indeed, the D-Mark has constantly strengthened, rising from early in 1985 to mid-June this year by more than 40 per cent against the US dollar and by around 10 per cent against *the currencies of 14 important* trading partners. The D-Mark is now relatively weak within the European Monetary System for reasons which have to do with the realignment in April, but that weakness will probably *be only temporary.*

Even so, it would be too easy to say "liberalisation accomplished, situation stabilised." True, after its weak phase at the start of this decade the D-Mark has been able to make *good its role as the world's* second main investment currency — though still a long way behind the dollar.

That raises the question of what else could, and should, be done to help make West German financial markets still more attractive. One main key lies squarely in the hands of the Federal Finance Minister, Mr Gerhard Stoltenberg, who should surely abolish the Börsenumsatzsteuer — the stock market *stamp duty applied on* securities transactions in Germany.

Because of this levy the secondary market in, for example, Floating Rate Notes has gone to London, where no *such tax is applied on foreign* issues. Much the same would apply to a secondary market for the (so far almost still-born) CDs.

Mr Stoltenberg has already indicated privately that he *intends to drop the tax in the* next legislative period (from next year, assuming that the present Centre-Right Government is returned to office). But the Government has recently been collecting more revenue *from this levy, thanks to the* booming securities markets.

Supporters of an active secondary market in Germany are fervently hoping that this extra revenue will not prompt Mr Stoltenberg to change his mind on abolition after all.

The Government is also seeking to improve the stock market structure and bolster West Germany's venture into capital activities, but progress here is slow. (See separate article).

Last year the D-Mark had a share of around 7 per cent of the total volume of *international bond issues* and about 14.5 per cent of global foreign exchange reserves. But at the same time the Federal Republic has a fast-growing role as a turntable for international funds, which has drawbacks as well as benefits.

For example, the turnover volume of long-term capital transactions across the West German frontier has been growing at an annual average of *more than 20 per cent, and of* portfolio transactions alone at an annual average of over 40 per cent. Foreigners are key players in the German bond market and much the same is true on the share market albeit *at a lower volume.*

This greatly increased volume, and potential volatility, of international funds naturally cause problems for the watchdogs of German monetary policy, who have long *been remarkably successful in* keeping to their money supply targets. (See accompanying article).

It also raises the question of how sharply the D-Mark might drop in stormier times — for example if Germany's economic "fundamentals" began to look less satisfactory or if there were political changes tending to make foreigners more cautious about putting so much of their funds into D-Mark assets.

The most dramatic development would be to create "offshore banking facilities."

This would also be the most logical step, according to Mr Walter Seipp, head of Commerzbank. *He points out that* part of the banking business which previously flowed away to foreign Euromarket centres would be repatriated to Germany and that steps could readily be taken to ensure that such offshore facilities *did* not pose new problems for money supply control.

It would be unwise to rule out that step for good, but the Bundesbank has come a long way in the past two years and it now seems to have nearly reached its limits. Foreign banks, at least, might give it a cheer.

Jonathan Carr

PROFILE: WOLFGANG KARTTE

Ten years as 'the underdog'

Wolfgang Kartte . . . "Nothing illegal, just a lack of Fingerspitzgefuehl"

"I'M NO Savonarola who wants to revolutionise everything," proclaims Mr Wolfgang Kartte, the president of the Federal Cartel Office. Yet from his office in Berlin, Mr Kartte has been stirring up the banking world by criticising the banks' involvement in some recent merger attempts.

He has accused banks, both German and foreign, of colluding with their clients to get round the cartel law which says that no company may buy more than 25 per cent of another without Cartel Office approval. In many cases, which his office has documented, an acquiring company's banks have bought sizeable stakes in the target company, creating an apparent alliance holding well over half the shares, sometimes more than three quarters.

"There is nothing illegal about this," says the stocky, gravelly-voiced Mr Kartte, "but it lacks *Fingerspitzgefuehl*"—one of his favourite words, best rendered as "sensitivity."

For example, when MBB, the aerospace company wanted to buy Krauss-Maffei, the arms and engineering company, Mr Kartte's staff found that MBB interests held 24.95 per cent of Krauss-Maffei stock; two Bavarian banks held 25.5 per cent and 10 per cent respectively; the Dresdner Bank 11 per cent; and the Deutsche Bank 10 per cent. By the time other interested parties had also been accounted for, the number of shares in public hands was only 3 to 4 per cent.

But the office has to back its suspicions of collusion with hard evidence, and this has been difficult to come by. The office has no investigative powers, and it suspects that many of the documents forming these alliances are safely locked away in Switzerland. Bankers, naturally, deny his charges.

One senior banker who came in to see Mr Kartte said that there was no formal agreement in his case. "But he told me, 'So long as that company is good, it gets my votes'," said Mr Kartte.

After nearly 10 years in the job Mr Kartte is accustomed, of course, to the wiles of the German banking and industrial world, and he jokingly refers to himself as "the underdog." But he believes the banking case goes beyond the narrow question of strict adherence to German cartel law.

"Banking is all about safety; industry is all about competition. There must be a conflict when the two come together," he says. While supporting the concept of "universal banking," which allows banks to invest in industrial companies, Mr Kartte questions whether banks should be permitted to take strategic stakes in other companies. "These are really questions of banking law," he says.

Issues of banking power were widely *debated in* Germany in the 1970s, when a special commission recommended curbs on banks' activities. But these were never followed through by the then socialist government.

Mr Kartte seems doubtful that measures will be taken *to* curb the practices he condemns—in the present political climate at least. He is also unenthusiastic about an SPD proposal to reduce the 25 per cent ceiling to 10 per cent. "That will only create a 9.9 per cent problem," he says.

But he is a determined man—one suspects he would be a tough competitor if he ever went into business himself—and the banks have certainly not heard the last of him.

David Lascelles

Well set to win new business

CONTINUED FROM PAGE 1

owned with several partners. But there is still a sense that German institutions do not fit so easily across the world as some of their key competitors from other countries.

Beyond that, a psychological factor is probably involved too. The Germans are highly cautious and security-minded. They tend to be suspicious of novelty. They will walk round an *innovation, prodding,* testing, and probably writing long reports about it, before actually giving it a try.

Once they are sure it will work they will adopt it and probably use it more effectively than most other people. By that time, *of course*, the novelty element may have long since disappeared.

There are historical reasons for this. A nation which lost two world wars, remains divided, and has seen its currency destroyed through hyper-inflation has *good* reason for opting, in many different fields, for security rather than experiment.

The problem is that in some highly competitive fields, such as microelectronics and financial innovations, the markets tend not to wait for the cautious perfectionist.

Such is the negative side of the *picture.* The positive one is that their native caution may help the German banks avoid costly errors in markets that display something of the uncontrollable energy of the sorcerer's apprentice.

For example, have the German banks been relatively little *involved* in the controversial Euronote facilities business because they are too slow, because margins are too small or because they sense they might well be building on sand?

The answer is probably a bit of all three. But when tempted to poke fun at the punctilious German approach it is also wise to recall the fable of the tortoise and the hare.

Public Finance

	DM bn 1985	Change in % 1984	Change in % 1985
TAX REVENUE	402.1	+4.3	+5.3
Turnover tax	109.8	+4.4	−0.6
Income and corporation taxes	214.2	+4.9	+10.1
PUBLIC DEBT (at year-end)			
Federal Government	392.4	+7.6	+6.8
Länder governments	246.2	+8.7	+6.8
Municipalities	114.0	+0.6	+0.8

Source: Commerzbank

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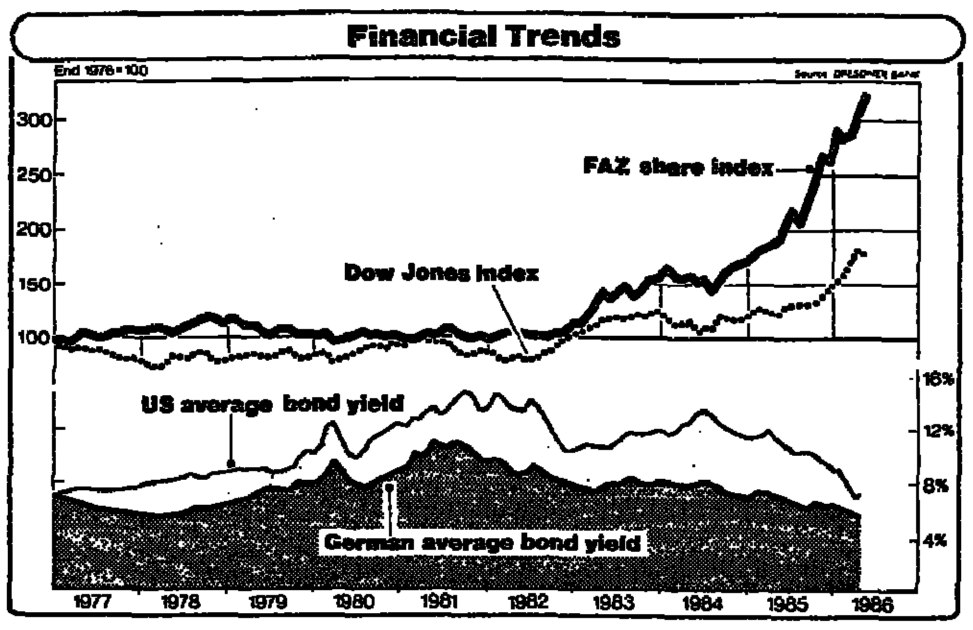

Privatisation

The windows are ajar

IN WEST GERMANY all things *are relative. The present centre-right* coalition took office in October 1982, committed to a forthright free-market approach to the economy, centred on ambitious plans to cut the state's direct involvement in industry by a major programme of "privatisation," and to breathe new life into the country's stuffy financial markets.

Three-and-a-half years on, and barely seven months before new general elections, its record by international standards is mixed at best.

A measure of privatisation has been achieved, and the windows of the markets have been opened a little. But the results are modest indeed when set against the sale of state holdings forced through by a Conservative government in Britain, or if compared to the Big Bang for which the City of London is bracing itself this autumn.

So far, Mr Gerhard Stoltenberg, the Finance Minister, has succeeded in reducing only two of the Government's major holdings in German industry. In 1984, Bonn netted DM 800m when it sold off 14 per cent of its stake in the energy conglomerate Veba, leaving the state with around 30 per cent.

Thereafter came a long hiatus. Mr Stoltenberg wanted to cut the Federal Government's interest in Lufthansa, the national airline, to 55 per cent from the present 74 per cent. But this move, long seen as a litmus test of his seriousness of purpose, was blocked by objections from Mr Franz Josef Strauss, the powerful Prime *Minister of Bavaria. Finally,* this spring, his campaign regained momentum with announcement of plans to sell off 40 per cent of Viag, the state-owned chemical, energy and aluminium concern, for around DM 750m.

More, though, is promised later this year — and above all in 1987 and 1988. Bonn aims to sell 55 per cent of its present 95 per cent holding in Prakla-Seismos, the Hanover-based oil *and gas exploration company,* and to hand over control of the IVG management conglomerate to the private sector.

Next year Mr Stoltenberg hopes to start on the disposal of the state's remaining minority holdings in the Volkswagen car company, and the energy group Veba, currently standing at 20 and 25.7 per cent respectively. Between them, the stakes have a market value of some DM 5.3bn; and the DM 4.5bn of income the minister is anticipating in 1987 and 1988 will be *vital if the public borrowing* requirement is to be kept from increasing sharply.

Further ahead, part of the Salzgitter steel concern, the Government's largest single majority holding and now restored to financial health, could be sold off.

"We aim to privatise gradually other direct holdings of the government," Mr Stoltenberg says, promising a fresh round of sales if the centre-right retains power in January.

In fact, though, privatisation *is of comparatively small* importance in the grand design of broadening and strengthening the capital markets. The German Bundespost will not go the way of British Telecom, and the Government's steps have been eclipsed by other flotations, spurred by booming stock markets. The most ambitious of these, involving Feldmuehle Nobel (the rump of the former Flick group) is alone worth DM 2bn.

Theoretically of more fundamental relevance, in a country where *state ownership of* industry is comparatively limited, are plans to attract more venture capital, and encourage small, new, and often technologically innovative, concerns into the public arena—and, in the process, to create a more flexible stock market structure to receive them.

One prong of the assault is the proposed bill, with the intimidating title of "Gesetz *ueber Unternehmensbeteiligungsgesellschaften*" (or Law on Companies which take Equity Stakes in Enterprises), designed to encourage the public to put money into venture capital concerns, which then inject capital into small companies. But the safety provisions built into the bill are almost at odds with the flexibility and risk-taking *spirit* it is intended to foster —and in the view of many bankers the measure could prove counter-productive.

The requirement, for example, that such companies must have a capital of at least DM 2m and spread their investments among at least 10 different companies, may be fine as protection for the ordinary small investor. *In practice, however,* it may well mean that mainly big institutions like the already omnipotent banks will launch the new concerns, and quite possibly employ them as receptacles for holdings they already have in small businesses.

More legislation, which, like the venture capital proposals, is still before parliament, involves the creation of what amounts to an unlisted securities market along British lines.

This *Geregelter Markt* has been tailored to appeal to *smaller companies, at present* frightened away from the stock exchange by high listing costs and the exhaustive regulations which govern the official market.

But the progress of both bills, which went before the Bundestag in 1985, has been maddeningly slow. Finance ministry officials reckon they *should* be on the statute book by autumn. But their first fruits —not to mention the further doses of reformist tonic, promised by Mr Stoltenberg— may well have to await a centre-right triumph next January. In the meantime, the chances are that West Germany's financial community will press on by itself.

Rupert Cornwell

The Stock Market

The wallflower takes third place

MUCH IMPROVED—but must do better still! A fair judge is surely forced to give that verdict on the West German stock market in mid-1986.

Compared with the puny, lack-lustre object of a few *years* ago, today's market positively scintillates; but it still falls well short of the kind of market you would expect to find in so highly developed an industrial economy.

Undeniably, the market has grown greatly in volume and diversity. Last year the turnover of all German stock exchanges together totalled DM 436bn, a rise of 79 per cent on the 1984 figure. Germans stress, with mingled pride and astonishment, that this makes their market the third biggest *in the world* in turnover terms, following New York and Tokyo but in front of London.

A few years ago this result would have seemed unattainable. The German market seemed doomed to stay an unattractive wallflower at the world stock exchange ball, gloomily predictable and courted in the main by a few *portly German banks.*

Nowadays there is a lot more to watch than familiar blue chips like the "big three" chemicals companies, Siemens (electricals) or Daimler-Benz (vehicles). There has certainly been no flood of companies "going public," but at least there has been a pretty steady stream. They include internationally-known names like Feldmühle-Nobel (the former Flick group), Henkel (detergents), Porsche (fast cars), Springer (publishing) and Nixdorf (computers), as well as a fair spread of smaller but lively enterprises.

At the start of this decade almost no new companies were going to the bourse. In 1983 there were 12 with an issue *volume of DM 319m, in 1984* more than a score with a volume of DM 1.7bn, and last year just 12 again—but with a volume of DM 1.8bn.

This year the DM 2bn Feldmühle-Nobel issue alone has ensured that volume in 1986 will be a record.

Naturally, the almost continuous bull market since the summer of 1982 has been a key factor, helping persuade companies to go to the bourse for the first time. That market upswing was caused by several things—including the switch to a centre-right government from one of the centre-left in late 1982, and an encouraging economic environment with *steady growth and falling* inflation.

Yet another factor has been the change of generation and —to some extent—in psychology in Germany. For one thing, entrepreneurs who built up, or sustained, their own business in the post-war period do not always have children who want to stay with the firm—so a public share flotation offers one way out of the dilemma.

For another, more young Germans are keen to found their own companies with the aim of *going public* after a few years; and there are more venture capital outfits around with advice and funds to help them.

All that said, the equity market in Germany remains a fragile flower which needs careful tending. It owes much of its new-found bloom to the attentions of foreigners who perceived the steady economic progress in Germany, felt (correctly) that many stocks were under-priced and noted, moreover, that they stood to make exchange rate gains because of the undervalued D-Mark.

The key question is whether Germans themselves are becoming such enthusiastic shareholders that they could broadly sustain a domestic market in which foreigners were showing dwindling interest. The answer is almost certainly no. Germans have overcome some of their traditional suspicion of share investment, but they are not yet devoted market players. And if the market weakens as foreigners withdraws, what happens to that flow of new bourse *entrants?*

The corollary is that steps need to be taken to help keep foreigners interested in the German market, and to prove to Germans that share *investment* really is a viable alternative to bonds or savings accounts. This need is broadly recognised—but progress is slow.

For example, after more than a year of tortuous (and tortured) discussion, the eight regional stock exchanges (Frankfurt, Düsseldorf, Munich, Stuttgart, Berlin, Hamburg, Hanover and Bremen) last month finally set up a common association. Previously, they had only a loose "working group."

This new body *aims to foster* much-needed technical and structural change—for example by cutting duplication of effort and paperwork among the eight; by drawing up an annual report with country-wide statistics; by harmonising computer hardware; bringing in a longer settlement period for stock exchange transactions.

In a nutshell, the association will try to present a single, progressive German stock market face to the world (while retaining the regional exchanges), and will use its increased weight to lobby the government on desirable reforms.

The Government is already seeking, through a new bill, to improve stock market structure, encouraging more medium-sized companies to go public while giving better protection to investors. But it surely needs to provide tax concessions, too, both on the corporate side and by removing the stock market turnover tax levied on all securities transactions in Germany.

Rather than penalising share investment, the Government should probably consider subsidising it — at least until the habit has stuck. That cannot be expected in what remains of the current legislative period, but it is worth considering after the next general election, in January.

All these reforms cost something, either in money or prestige, or both. It was certainly not easy for some regional exchanges with long traditions to join the new association, amid fears that Frankfurt and Düsseldorf (which account for more than 80 per cent of stock market turnover) will dominate the show. But the harsh truth is that, if the German stock market does not offer investors — German and foreign — the scope and facilities they want, the business will simply drift elsewhere.

Jonathan Carr

Capital Market

FIXED SECURITIES	1983	1984 DM bn	1985
Gross sales of domestic bonds†	226.7	227.4	261.2
of foreign DM bonds	17.0	19.1	31.1
Net sales of domestic bonds†	87.6	72.1	79.4
Outstanding at year-end	865.5	946.3	1,046.7
including DM foreign bonds	87.6	96.3	117.4
Yield at year-end*	8.3%	7.0%	6.6%
OFFICIALLY QUOTED SHARES			
Total market value at year-end	225.7	246.7	438.8
Dividend yield‡	3.3%	3.6%	2.5%
Commerzbank index (changes)	+36.5%	+6.4%	+76.1%
Capital increases (cash proceeds)¶	2.7	2.4	6.7
Stock exchange trading	84.1	84.7	210.7
INVESTMENT FUNDS FOR SMALL INVESTORS			
Net sales	3.82	4.17	8.28
including: bond funds	1.72	4.54	8.49
equity funds	0.57	−1.13	−0.96
real estate funds	1.52	0.76	0.75
Total assets as at year-end	39.79	46.39	58.76

†Nominal. *Domestic securities outstanding. ‡Including tax credit. ¶According to Commerzbank statistics.
Source: Commerzbank

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Landesbanks

Stalemate is not the end

MR WERNER SCHMIDT may have good reason to wish he had not been so hasty. He had already concluded in April that the plans for one of Germany's biggest recent bank mergers—involving his Landesbank Stuttgart—would never materialise. Efforts to build up a new regional bank in Baden Württemberg had been plagued with problems from the start, and he decided to leave the managing board for a new job.

But, only two months later, he was persuaded to return with the view that the plan had gained a convincing momentum after series of earlier setbacks.

So it must have been with considerable dismay that he learned of the June 18 withdrawal of one of the four prospective partners which dealt the plan another, this time possibly fatal, blow.

The proposal is the brainchild of Baden Württemberg's no-nonsense premier, Mr Lothar Späth. He has invested considerable personal effort and *prestige in realising his vision* of welding four relatively small local banks into one large regional institute capable of holding its own against Germany's biggest.

His plan was to merge the region's two existing regional banks—the Landesbank Stuttgart and the Badische Kommunale Landesbank—with the Karlsruhe-based Landeskreditbank and the country's second biggest savings bank, Stuttgarter Landesgirokasse.

The new state bank—which was to have opened its doors on January 1 1987, with a balance sheet of nearly DM 110bn—would have been one of the 10 biggest banks in West Germany.

The Premier's concern—some might say crusade—is understandable, in view of both the important role played by the Landesbank in shaping regional development and their strength on the German banking scene. The Landesbanks control nearly 16 per cent of total business volume, while the savings banks add a further 22 per cent.

The regional banks carry out a central clearing function for the state savings banks which, together with the local governments, are their main shareholders. The larger of them have extensive operations, both in the domestic market and abroad, but all are committed to one degree or another to helping fuel local development.

As it happens, Baden Württemberg is not well represented in the ranks of the regional banks, although it boasts some of Germany's premier industrial groups. These include Daimler Benz, its growing ambitions in high technology fuelled by recent acquisitions of the AEG and Dornier groups, as well as Robert Bosch, the car components group, and the SEL electricals concern.

Mr Späth has seen a large-scale regional bank as essential to assisting the process of structural change in the state, as well as promoting small and medium-sized business, providing export assistance and finance, and helping to bring new companies to the stock market.

Neighbouring Bavaria's Munich-based Bayerische Landesbank, for example, has assets of DM 106bn and is the seventh biggest bank in the country.

Farther north, in North Rhine Westphalia, which includes the Ruhr industrial area, the Westdeutsche Landesbank (WestLB) is not only the biggest of the Landesbanks but also the number three institution in Germany after Deutsche and Dresdner. In fact, both institutions originally grew out of mergers of smaller local banks.

WestLB and other large Landesbanks were, for some time, the focus of a broad debate about the growing scope of their foreign activity, with some in the banking community arguing they should concentrate more closely on the domestic market.

However, the growing internationalisation of financial markets has, over time, undercut this view. WestLB is, for example, well established abroad. And not least in the bond markets.

It recently purchased a 74 per cent stake in the Bank für Credit und Aussenhandel, in Zurich, and is expanding its New York and London operations. Moreover, it has started negotiations with Japanese banking authorities about establishing a securities trading operation in Tokyo, and has opened a representative office in Beijing.

This is the type of bank that Mr Späth is seeking to build. But his campaign has been complicated by, among other things, the fact that the two Landesbanks in Baden Württemberg are owned entirely by the local savings banks: while, elsewhere in the country, they are to a substantial degree in the hands of state governments.

The immediate reason for the latest stalemate was the decision by the managing board of the Stuttgarter Landesgirokasse to withdraw from the group. Although possibly related to regional political manoeuvring, the bank's official position has been that the proposal does not offer business advantages sufficient to justify the requirement that it closes 80 of its branch offices.

Without the Landesgirokasse as a source of low-cost funds, the new regional bank would be seriously hamstrung.

Yet another element of uncertainty is the extent of expected future write-downs on bad investments—following an earlier series of misfired property loans—at the Badische Kommunale Landesbank (Bakola). In fact, the group is under investigation, and both its managing director and his deputy were recently forced to resign.

Over time, many of the Landesbanks have been hit by financial misfortune. One example is the heavy loss provisions and write-offs at Deutsche Anlagen-Leasing (DAL), one of the country's biggest leasing operations. The company is owned to a total 90 per cent by the four biggest regional banks. WestLB has the biggest share, with 30 per cent.

WestLB has not paid a dividend since 1979, having set aside a total of DM 1.4bn in losses and risks associated with the DAL-affair. This was despite often buoyant operating profits at the bank, which rose by DM 100m last year to DM 1.42bn.

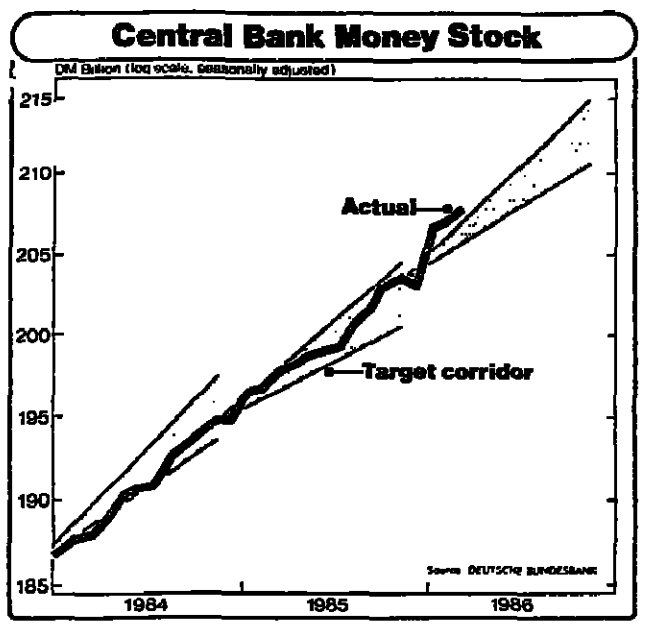
The latest serious stalemate does not, however, mark the end of the Baden Württemberg effort. Mr Spath has vowed to continue work, and the withdrawal of the Stuttgart Landesgirokasse is not necessarily final.

However, even if a compromise is patched together, the new bank will face considerable challenges. Not least among these is successfully merging four different business cultures into one smoothly-working unit. Moreover, the partners have little experience or expertise in guiding companies to the stock market.

In contrast to their established rivals, they also have a meagre spread on the foreign front—in the midst of the rapid internationalisation of financial markets.

David Brown

Central Bank Money Stock



The Bundesbank

Reins may not be loosed

ARE THE world's most successful monetarists about to come a cropper? *Specifically, is the* Bundesbank going to fail this year to keep to its money supply target for the first time since 1978?

Late last year the Bundesbank (central bank) set a target zone for growth of its money stock to the end of 1986 of between 3.5 per cent and 5.5 per cent; but monetary expansion so far has been well above the upper limit of the "corridor."

Does that matter much? Part of the excess is due to special factors, for example, the inflow of funds to Germany preceding the revaluation of the D-Mark within the European Monetary System.

Moreover, the cost of living has *actually been falling* compared with a year ago, so that it might seem neurotic to say that the fast-expanding money supply might feed a new round of inflation.

For all that, the problem is not so easily dismissed. For one thing the fall in the cost of living is due to cheaper imports, caused above all by the weaker dollar and plummeting oil prices. Exclude that external factor (and the falling oil price can hardly be guaranteed indefinitelly) and West Germany's "home made" inflation is seen to be rising at a year-on-year rate of around 2 per cent.

That is no cause for alarm but it is quite enough to make the Bundesbank wary of loosening the monetary reins still further, as some foreign countries are urging it to do. Moreover, *the Bundesbank has so long* achieved its money supply objectives (in the past two years it landed uncannily in the middle of its planned range) that it risks losing credibility if things go wrong this year.

It does not imply that the Bundesbank is a dogmatically monetarist institution. True, it was the first central bank to announce (in late 1974) a target for money supply growth in the following year, but it never claimed that control of the *money stock was enough of* itself to bring price stability.

Targeting was seen as an aid in the battle against inflation, not a patent solution. Indeed, at the start one senior Bundesbank official sourly called the *targeting business* "hocus pocus."

At first there seemed to be something in that judgment. Up to and including 1978 the Bundesbank failed to meet its targets, partly because it was still experimenting; but meanwhile it has refined and reformed some of its key monetary instruments and its performance over the past seven years has been remarkably accurate.

It has become more flexible in the ways it provides central *bank money, relying much less* on the "big drum" of changes in discount and Lombard rates and more on finely-tuned injections of liquidity through securities repurchasing agreements with the banks.

True, in May this year the Bundesbank slightly relaxed its minimum reserve requirements, *which specify how much money* the banks must tie up interest-free at the central bank. But that does not imply that minimum reserves are likely to be abolished altogether in the near future.

The instrument is seen as important, above all, as an *automatic* brake on monetary expansion—that is, one which operates even before the Bundesbank has statistical evidence of the growth and can bring its control measures to bear.

The Bundesbank does not normally get too upset over short-term over-running of its money supply targets, and there is still time for a corrective in the later months of this year. But even so the fast expansion is causing some furrowed brows. Some bankers even suggest that there are parallels with the "black year" of 1978.

In 1978, as now, the D-mark was strengthening and import prices and inflation were falling, *but Bundesbank money stock* grew faster than planned (11 per cent instead of the target of 8 per cent). From 1979 on, inflation rose sharply by West German standards—touching a peak of 6.3 per cent in 1981.

There are several key differences in the economic and financial situation of the Federal Republic then and now, it is true, but the 1978 experience serves as a warning all the same.

Jonathan Carr

Foreign Banks

'Big wheel, small profit'

LIFE FOR foreign bankers in Germany has become distinctly *more interesting over the past* year or so, thanks to the liberalisation of the German finance industry. It has given them more scope to deploy their talents and to challenge the German banks on their home *territory.*

The question, though, is just how successfully they can exploit these new opportunities.

It is noticeable, for example, that only one foreign bank, CSFB-Effectenbank, the Credit Suisse subsidiary, has rushed to take advantage of the new rule allowing foreign banks to lead manage D-Mark bond issues. By early June it had done 14 deals totalling some DM 4bn, which put it high on the domestic league table. But other foreign banks had done only one or two deals, and many none at all, largely because of the fear of loss.

By the same token, it will be interesting to see how foreign banks fare in the Federal Bond Consortium, to which they have just been admitted. This will give them a share in the periodic issues of Government agency bonds. But, since their obligation will be to take bonds up in bad times *as well as good,* their staying power will be closely watched.

While there is a certain caution among foreign bankers in Frankfurt, they see nothing but good in the tide of liberali*sation. If there* is a complaint, it is that things are not moving fast enough.

Frankfurt may not be London, New York or Tokyo in the world league table, but the combination of booming markets and liberalisation has *made it much more attractive* on the securities side. The fact that banks in Germany combine the function of brokers and bankers, under the "universal banking" concept, means that they are best placed to tap growing foreign interest in investing in German bonds and stocks. For many of them, this could actually prove to be their main reason for having a branch there.

Germany plays host to over 220 foreign banks from some *45 countries. Traditionally, they* have learned their way by lending to the local subsidiaries of their big corporate customers from back home, financing exports, and supplying services like foreign exchange and corporate finance advice.

Fighting for a share of the domestic commercial loan market has been frustrating. The biggest German corporate clients command terms so fine that there is little profit in it for foreign lenders who do not have access to cheap retail deposits.

On the other hand, the more lucrative middle market is extremely hard for foreign banks to crack. Citibank, which has the largest presence in Germany of any foreign bank, recently pulled back from that market after management had second thoughts.

As one banker commented: "You turn a very big wheel for a small profit."

Morgan Guaranty, which is widely respected for its corporate clientele, has frequently considered entering the middle market, but has always ended up *deciding against it. In fact,* the bank has now closed its two regional offices in Dusseldorf and Munich because it reckons it can operate more efficiently out of its single centre in Frankfurt.

One way of tapping smaller German businesses is by acquisition, since this brings the "German-ness" which corporate clients in the federal republic like to see in their banks. Midland Bank now has 70 per cent of Trinkaus and Burkhardt, the Dusseldorf-based private bank. This stake gives it access on a rare level to the German investment and loan market. But the *constraint* is that Midland has to stand well back from Trinkaus, which is *still* very much managed by its own partners, which does not consider itself to be a Midland subsidiary, only a member of the Midland Group.

Similarly, Lloyds Bank has been careful to preserve the specifically German private banking characteristics of Schroder, Munchmeyer, Hengst, even to the point of preserving a name tainted by collapse (see profile).

More recently, the Swiss have moved in. Credit Suisse bought two banks, Grundig Bank and Effectenbank-Warburg, which have just been rolled into a single group. It is significant, though, that Credit Suisse has used its new vehicle mainly to attack the *securities* market rather than the commercial lending business.

At the end of last year, Union Bank of Switzerland, that country's largest bank, bought Deutsche Landerbank in order to stake a claim to the German market. Swiss Bank Corp decided to set up its own office.

The arrival of the Swiss in such force (along with the Bank in Liechtenstein which has also just opened in Frankfurt) could, many foreign *bankers believe, mark the start* of a much deeper penetration of the German market by outsiders. The Swiss banks are considered to have characteristics which appeal to German corporate and individual banking customers—solidity, a germanic culture and proximity. Through their private German banking clients — most of the senior businessmen — they should be able to tap the corporate market.

David Lascelles

WEST GERMAN Banking, Finance & Investment 5

Banks in West Germany

Category of banks	1984 Banks	1984 Branches	1984 Bank offices total	1985 Banks	1985 Branches	1985 Bank offices total	1985 Year on year change in number of bank offices: Number	In %
Commercial banks	247	5,937	6,184	245	5,960	6,205	+21	+0.3
Big banks	6	3,119	3,125	6	3,115	3,121	− 4	−0.1
Regional banks and other commercial banks	103	2,501	2,604	105	2,256	2,631	+27	+1.0
Branches of foreign banks	62	50	112	63	45	108	− 4	−3.6
Private bankers	76	287	343	71	274	345	+ 2	+0.6
Regional giro institutions	12	245	257	12	239	251	− 6	−2.3
Savings banks	591	17,131	17,722	590	17,204	17,794	+72	+0.4
Regional institutions of credit co-operatives	9	46	55	9	46	55	—	—
Credit co-operatives	3,707	15,880	19,587	3,655	15,929	19,584	− 3	−0.0
Mortgage banks	37	28	65	37	29	66	+ 1	+1.5
Private	25	22	47	25	23	48	+ 1	+2.1
Public	12	6	18	12	6	18	—	—
Instalment sales financing institutions	82	537	619	78	492	570	−49	−7.9
Banks with special functions	16	78	94	16	79	95	+ 1	+1.1
Building and loan associations	21	17	38	21	19	40	+ 2	+5.3
Private	18	17	35	18	19	37	+ 2	+5.7
Public	3	—	3	3	—	3	—	—
Categories of banks not covered by the monthly balance sheet statistics	76	1	77	76	1	77	—	—
Investment companies	34	1	35	34	1	35	—	—
Securities depositories	8	—	8	8	—	8	—	—
Guarantee banks and other banks	34	—	34	34	—	34	—	—
Total	4,798	39,900	44,698	4,739	39,998	44,737	+39	+0.1

Source: Deutsche Bundesbank

The Bond Market

Mark spurs record issues

THE D-MARK foreign bond market has been in buoyant shape for much of this year, largely because of the strength of the currency against the dollar which prompted a record spate of new issues.

In the first five months of the year alone, some DM19.6bn of new issues hit the market, compared with DM 25.5bn for the whole of 1985.

Yet yields on fixed-rate issues have come down only slowly. In January the European Investment Bank launched a 10-year DM 300m issue at a coupon of 6¾ per cent. By June it was still paying 6½ per cent on a similar dated issue.

One does not have to look hard for reasons why the D-Mark foreign bond market has become attractive to international investors over the past year or so. Not only does Germany, like Japan, enjoy a massive surplus on its foreign trade and balance of payments (in the first four months the current account virtually tripled to DM 24.6bn), but with German consumer prices now falling, real interest rates are also very high.

So, if anything, the fundamental economic background this year could have suggested an even sharper decline in yields, especially now that the dollar has fallen sharply from its peaks in exchange markets. There are a number of reasons why this has not happened.

One is that the Bundesbank has, for some months, been resisting a further cut in leading interest rates. The feeling there is that the money supply stock is growing too fast. Also Germany's remarkable track record on inflation masks the fact that the main depressant to price rises has come from falling oil prices, coupled with the decline in import costs now that the dollar has dropped.

Take these two factors away, and there is still a potential inflationary problem, central bank officials argue. The worst approach would be to overdo the interest rate cuts only to face a need to raise rates again later when inflationary pressures came through.

Moreover, the Bundesbank has been constrained by the fact that, although the D-Mark has been strong against the dollar, it has not recently been particularly strong within the European Monetary System.

A branch of the Dresdner Bank in the Swabian Forest

One feature of the investor diversification out of US currency this year has been a search for the highest yielding alternatives. And that has brought advantages to the French franc which the lower-return in D-Mark could not always match.

In part, this means that the D-Mark bond market is still quite closely wedded to the trend on Wall Street. Certainly the scope for lower interest rates in Germany would recede even further if interest rates on the other side of the Atlantic started to rise again—and, since the spring, the optimism on Wall Street over falling long term rates has given way to a deep uncertainty in which rates have again risen.

The interest rate differential between Germany and the US is now at a very low point, by historical standards. According to the latest analysis by Dresdner Bank, yields on 10-year US Government bonds are now only some two percentage points higher than those on their German counterparts. This compares with a differential of as much as six points two years ago.

The last time the difference was as narrow as this was as long ago as 1980, Dresdner Bank says, adding that this could mean that the German market is in the process of shaking off its dependence on the trend on Wall Street. If US rates were to rise later in the year, as many in Germany believe, German rates would not necessarily follow suit, it says.

Another reason for the slow way in which German rates have responded to the fall in inflation is, however, the sharp rise in bond market activity. Not only has the volume of new issues risen rapidly since the market was opened up to a range of new instruments, including floating rate notes and zero coupon issues a year ago; the Eurobond market has also been shaken by the cumbersome official registration system which has only just been changed.

Under the system, banks planning to launch a new bond issue had to register it with the Bundesbank before the start of each month. The Bundesbank then announced the total of issues registered with it, though not the names of individual borrowers.

But many banks found this approach irksome as it prevented them from arranging swap-related issues at short notice. Under a swap, the borrower exchanges the proceeds of his issue with another borrower to bring him a more suitable form of finance. For example, he may issue fixed rate funds in Germany and swap them for floating rate dollars. The overall result is a cost-saving for the borrower and fee income for the banks which arrange the deal.

It all depends on timing, however. Since the Bundesbank registration scheme required banks to give advanced notice of issues many were actually inserted in the calendar that did not actually appear. The result was that each month the Bundesbank would announce a huge figure of prospective issues—in May the total was nearly DM 19bn—that weighed on the market even though only a fraction actually materialised.

From July, this system has been changed. Henceforth registration will only be on a fortnightly basis and the total registered will not be made public. That could improve the efficiency of the market, but there seems some uncertainty over whether it will have a decisive influence on the trend of yields.

Apart from anything else, foreign investors have become much more actively involved in the German domestic markets now that the coupon tax has been abolished for non-residents. The market in Federal Government bonds is much larger than that for Eurobonds, and the trading liquidity that results gives it added appeal. At the margin, that could have siphoned off some foreign investor demand that would otherwise have gone into Eurobonds, keeping yields on the currency sensitive Euromarket higher than they would otherwise have been.

Foreigners have now been invited to take part in the underwriting syndicate that distributes Federal Government bonds. Appropriately enough, this comes at a time when the Government's funding requirements are set to rise because it can no longer rely on a handsome dividend from the Bundesbank which manages Germany's reserves in weakening dollars.

Those foreign banks which take up the invitation are now likely to put renewed effort into selling domestic paper, and that could in turn rebound to the detriment of Eurobond yields. All markets have to work towards a balance of supply and demand. Where D-Mark bonds are concerned, the demand is certainly high—but so is the supply.

Peter Montagnon

Savings Banks

A mirror of the nation at large

SURPRISING as it may be at first glance, the biggest single chunk of the West German commercial banking industry is not constituted by the private sector institutions arrayed behind the triad of Deutsche Bank, Dresdner Bank, and Commerzbank—or even by the more than 3,700 co-operative banks.

It is the 590 savings banks (Sparkassen) whose 17,000 branches are in every German high street, and their clearing house "umbrellas" the dozen state banks or Landesbanken.

The Sparkassen have been part of the history of German banking since the first of them was founded early in the 19th century by well-meaning municipalities to protect honest citizens from the perils of usury and offer them a secure investment for their savings. The movement grew rapidly. By 1850 there were 500 of them and in 1900 they numbered no less than 2,700.

The cheques law of 1908 saw the Sparkassen as pioneers of cashless payments—a step which led directly to the establishment of the Landesbanken as their central clearing institutions at a regional level. Though most individual Sparkassen are relatively small the largest of them, the Hamburger Sparkasse, achieved a balance sheet total of DM 22bn at the end of 1984.

But the Landesbanken, traditionally closely linked with the governments of the various states where they are headquartered, are different. While the Sparkassen by and large have remained faithful to their original clientele — private households and small and medium-sized local businesses —the Landesbanken have gained a powerful position in German money and capital markets and deal primarily with big public and private sector customers.

The best known of them, the Westdeutsche Landesbank-Gironzentrale of Dusseldorf, had total assets of DM 141.5bn at the end of 1984, placing it behind only the Deutsche and Dresdner among West German banks. Between them, Landesbanken and Sparkassen have assets of nearly DM 1,300bn—over 40 per cent of the DM 3,200bn of funds in the country's entire banking system.

In other ways, too, the Sparkassen reflect the nation at large. In 1985, as the economy chugged ahead in unexciting fashion and consumers hesitated to spend their money, the deposits registered in 71.8m savings books, held by 20m separate customers, rose by 6 per cent to DM 322bn.

But the movement's total balance sheet grew by only 5.8 per cent, the smallest annual rise since the currency reform of 1948 which began the German "economic miracle" of the next two decades. The advance in lending, in good measure due to the depressed construction industry, was below the average of the past five years.

Perhaps this will add up to a further slight erosion of the overall position of the Sparkassen to the profit of their great local rivals, the co-operative banks. But in other respects the Sparkassen still set the pace—nowhere more so than in the area of electronic consumer banking, where 585, or nearly all of them are plugged into a joint computerised accounts system.

The most visible trail-blazing, however, has been in plastic cash cards—and not without controversy. The Sparkassen are already market leaders with the Eurocheque (EC) card, which has emerged as a standard cheque guarantee card throughout Europe, as well as an access card for automatic cash dispensers in Germany.

Of the 1,858 such dispensers in the country, 60 per cent have been installed by the Sparkassen, which have issued 9.6m Eurocards. Of these, 100,000 were issued in 1985 alone, covering 44 per cent of their individual customers. The system now embraces 1,000 dispensers in Spain and new EC cashpoints are due to be opened in the UK, Portugal and Denmark for the summer tourist season.

But the success of the Eurocheque card has not stopped the Sparkassen from planning a new card of their own, named the S-Card, offering all the advantages of the EC card but extended to all—rather than 44 per cent only—of their clientèle.

Rival bankers argue that a parallel card system might threaten the EC and claim that a dispute could endanger the planned introduction of electronic point-of-sale facilities in shops. The Sparkassen are unmoved and the controversy remains.

Meanwhile, the Sparkassen have been obliged by the growing export orientation of the West German economy—and helped by the powerful allies of their Landesbank "parents"—to carry their already extensive services into foreign countries as well. To compete better at home, they had to offer a service abroad.

Co-operation with the Landesbanken, which have long been active in important financial centres outside Germany, was a big advantage. If a Sparkasse did not have a correspondent bank of its own in a given centre its regional Landesbank might fill the gap.

Foreign business partners benefit too. If their main bank has a connection to a Landesbank, they simultaneously have a line to the likely principal bank of their local supplier or customer in West Germany.

Rupert Cornwell

Capital Markets

Waiting on the global game

IF LIBERALISATION has sharpened foreign competition in the German securities markets, the German banks have not been slow to establish themselves in overseas markets either. However their approach has been more cautious than many of their foreign competitors; they seem prepared to take their time and wait to see what emerges from the much-publicised "globalisation" of the capital markets.

As universal banks, Deutsche Bank, Dresdner Bank and Commerzbank seem particularly well-equipped to cope with the new environment in which the dividing line between traditional banking and the securities markets is becoming increasingly blurred. Unlike their British, Japanese or US counterparts, they have been conducting both types of business on their home markets for years, and all three are active players in the Euromarkets.

Yet in London, for example, they have been conspicuously absent from the list of banks who have bought stockbroking and jobbing firms in order to participate in the "Big Bang," as the liberalisation of the UK markets is called.

Deutsche Bank, the largest, has bought only a 4.9 per cent stake in Morgan Grenfell, the merchant bank, in order to gain what Mr Rolf Breuer, a member of the executive board with responsibility for capital markets activities, describes as "an inside view on how things are developing in London." Deutsche will preserve this stake by buying more shares as Morgan goes for a listing on the Stock Exchange, but seems unlikely to increase it, partly because that would create regulatory problems in the US where both banks are represented.

Nor is Deutsche seeking to become a primary dealer in the gilt-edged market. "It's high volume, with increasing risks and decreasing margins. That's not the sort of business we want to get into," said Mr Breuer.

Deutsche Bank did, however, shift its non-DM bond business to London last year to get closer to the centre of the Euromarkets. This operation now has about 120 people and is profitable, according to Mr Breuer, but like most institutions in the City these days, it is short-staffed.

In the US, Deutsche Bank has a stockbroking business and is a member of the New York Stock Exchange. But unlike many other European and Japanese banks, it has no ambition to become a primary dealer in the Treasury bond market just yet. "Treasuries are very big and very liquid, but we do not think it is necessary to be a primary dealer in them. We are more accustomed to financing industry than governments."

The one centre where Deutsche has played a pioneering role is in Tokyo where it became the first foreign commercial bank to obtain a securities licence last year. It achieved this by setting up a 50 per cent-owned subsidiary at the suggestion of the Japanese Ministry of Finance which enabled it to get round the ban on commercial banks engaging in securities trading. Several other banks have since followed the same route.

Deutsche will not, however, be seeking membership of the Tokyo Stock Exchange. "Too expensive," says Mr Breuer.

For Dresdner Bank, the most important centre to focus on overseas is New York, according to Mr Piet-Jochen Etzel, member of the board responsible for capital market. The bank owns 75 per cent of ABD, a New York-based securities firm, which will act as its vehicle into the US markets where Dresdner aims to be active in corporate finance, securities and mergers and acquisitions.

In Japan, Dresdner is also obtaining a securities licence. However it has gone one better than Deutsche and set up a subsidiary in which it owns a majority stake, having taken advantage of a technicality which allowed it to split the stock into voting and non-voting shares. As in the US, Dresdner sees itself handling orders for Japanese securities and developing further outlets for securities from other markets.

However Mr Etzel emphasises that Dresdner is taking a fairly measured approach to developments on the world scene, and particularly in London where he sees no need for action at the moment. "We will stand downstream from the others and pick up some pieces as they float past. We would like to build up our business ourselves. There is plenty of time. These are lasting trends."

As the smallest of the Big Three, Commerzbank feels the need to try hardest in order to break into business traditionally dominated by Deutsche and, to a lesser extent, Dresdner. Recently, it has boasted of bringing innovations to the German capital markets, and new borrowers, such as Westpac and the Bank of Nova Scotia, which has brought it up to second place in the German league table.

Overseas, though, Commerzbank is taking a somewhat more low key approach. The philosophy, according to Mr Gerold Brandt, head of the international investment banking department, is that "We are a German bank, and our speciality is where there is German business." He says Commerbank is "not one of the big spenders" and he doubts that the bank needs to set up big securities operations around the world where much of that business can be done through its existing branches.

Commerzbank is, however, seeking a securities licence in Tokyo. And on the US market it has a 40 per cent share in Europartners Securities Corporation, a small Wall Street investment bank which engages in corporate finance, underwriting, investment management, and securities business.

Ranking as they do among the world's largest banks, these three banks are bound to figure prominently in some way or other as the world markets evolve. Their style may not be as eye-catching as some other Continental and US banks. But with an increasingly active domestic securities market to cultivate, and an obvious need to keep up with the competition abroad, they are unlikely to let events leave them too far behind.

David Lascelles

Money and credit

(at year-end)	1983	1984 DM bn	1985
Bank loans to private companies†			
Short-term	261.1	280.5	282.7
Medium and long-term	601.4	634.0	673.1
Bank loans to private individuals†	478.2	513.0	545.7
Bank loans to public sector†	368.7	380.3	389.6
Customer deposits with banks†			
Sight	198.8	213.7	224.6
Time	436.6	470.3	511.8
Savings deposits and certificates	684.1	720.9	763.9
Cash in circulation	104.7	109.6	114.7
Central bank money stock (fourth qtr to fourth qtr)	+7.0%	+4.6%	+4.5%
Discount/Lombard rate (year-end)	4/5.5%	4.5/5.5%	4/5.5%

†Domestic only

Source: Commerzbank

As universal banks, Deutsche Bank, Dresdner Bank and Commerzbank seem particularly well-equipped to cope with the new environment in which the dividing line between traditional banking and the securities markets is becoming increasingly blurred.

Special Banks

Rooted in turbulent history

NOT A LOT of non-Germans are likely to recognise at once the unwieldy names of Industriekreditbank-Deutsche Industriebank (IKB) and the Kreditanstalt für Wiederaufbau (KfW), but both institutions deserve to be more widely known.

The two are quite separate and have some obvious differences in their ownership and tasks.

But both help to provide long-term finance for medium-sized business, both are diversifying their funding operations (offering some interesting investment opportunities for foreigners as well as Germans) and both have their origins in Germany's turbulent history this century.

The start of the IKB can be traced back to the Bank für Deutsche Industrie Obligationen, which was founded in 1924 to administer First World War reparation payments to the allies by German industry. It only became a credit-issuing institute in 1931.

After Germany's defeat in 1945 further operation in Berlin (its headquarters until then) was impossible but business was carried on in Düsseldorf under the name Industriekreditbank AG. By 1954 Berlin was safe enough to allow the re-appearance there of the Deutsche Industriebank. The two institutes finally merged 12 years ago — hence the long name.

So much for history. Today the IKB is a bank with basic capital of DM 210m, liable funds of DM 722m and (taking the figure for the 1984-85 business year) total assets of DM 14.4bn. Many Germans call it "the entrepreneurs bank" which well reflects its tasks and, broadly speaking, its ownership.

Its shareholders include the three big banks, Deutsche, Dresdner and Commerzbank, with a stake of around 25 per cent through a holding called Hostra Beteiligungsgesellschaft. Leading insurance companies have a further stake of some 20 per cent and a foundation representing entrepreneurial interests around 26 per cent.

The rest of the shares are held privately, in many instances by industrialists who are IKB customers. So the state is not involved in IKB, but because of its structure and special tasks IKB has some privileges which other banks do not.

IKB's key mission is to provide long-term credit for medium-term enterprises in particular, and with well over 5,000 corporate borrowers it is believed to be the West German market leader in this particular field. Naturally, many other German banks are involved in this sector too (among others) but by concentrating its efforts IKB has carved out a special niche for itself.

Adequate funding for the Mittelstand (medium-sized companies) is of special importance for the German economy. Companies with between 100 and 1,000 employees account for more than 40 per cent of the total labour force in manufacturing industry.

They often prove more inventive and flexible than their bigger rivals, yet they do not generally have the same financial resources, or funding possibilities, of "the giants."

That is where IKB steps in. At the end of the 1984-85 year, lending to customers totalled DM 11bn, of which no less than DM 10.6bn was credit for four years or longer. IKB's credit business includes export finance, but only for deals covered by guarantees from Hermes, the state-backed insurance concern.

It also offers services such as management consultancy, leasing and even (from Berlin) venture capital funds and advice—but the core activity remains firmly on the long-term lending side. Profits are consistent (no drastic swings in either direction) and dividend payments were maintained even in the worst recession years.

IKB funds itself in the main by issuing its own bonds and by borrowing from other banks (not least from KfW). In the former case, IKB is allowed by West German financial authorities to issue bonds up to 15 times its capital, a bigger ratio than that allowed normal commercial banks.

Not surprisingly, bonds make up the single biggest slice of total IKB liabilities—DM 6.3bn at the end 1984 compared with DM 4.9bn from bank borrowing.

IKB is increasingly spreading its wings to take advantage of cheaper finance on the international capital markets. For example, last November it made its first D-Mark foreign bond issue via its offshoot IKB Finance Amsterdam—a DM 100m capped floating rate issue. It has also established a branch in Luxembourg for funding operations alongside its subsidiary in the Grand Duchy, which is set up in 1979 mainly to meet customer demand for Euro D-Marks.

The name of the KfW—literally "loan corporation for reconstruction"—gives a strong clue to how the bank began, though little enough about its current role. Founded in 1948 to help to channel Marshall Aid funds to rebuild German industry after May 1945, it now plays a big part in financing the country trade and foreign aid as well as providing cheap loans to the Mittelstand.

It, Wiederaufbau, has a wider role than the IKB and is, indeed, one of the country's biggest credit institutes with business volume at end-1985 of nearly DM 90bn, total assets of more than DM 85bn and capital and reserves of DM 3.3bn.

But perhaps the crucial difference from the IKB is that the KfW is state-owned: 80 per cent by the Bund (federal government) and 20 per cent by the Länder (regional states).

Established under a special law governing its operation, the KfW is exempt from normal German banking regulations and is supervised by the government. For example the Finance Minister, Mr Gerhard Stoltenberg, is head of the administrative board.

Partly because of its outdated name and partly because of its hybrid nature (sometimes it looks a bit like the IKB, sometimes like the US Ex-Im Bank, sometimes like a mini World Bank), the KfW remains something of an "unknown giant." But a look at last year's balance sheet shows clearly enough what the bank's roles are.

The KfW pledged new credits totalling DM 13.4bn (up from DM 13.2m in 1984) both to help promote the West German economy and to aid the developing world. Of that total, DM 8.7bn (after DM 6.1bn in 1984) went to domestic investment, and of that sum 22,500 separate loans totalling DM 5.6bn were pledged specifically to help finance the capital investment plans of the Mittelstand.

The recipients get long-term loans at a somewhat lower interest rates than they would elsewhere, and KfW can afford to offer the cheaper finance because of its special status which keeps its funding costs low.

Another DM 1.8bn went on environmental protection programmes and the remaining DM 1.3bn of the domestic credit sum went on structural programmes—for example to aid the hard-hit building sector, agriculture, port facilities and so on.

On the foreign side, KfW pledged loans worth DM 3.2bn to help finance both export business and the direct investment of German companies abroad. Another DM 1.5bn went to development projects in the Third World. In addition to these loans, KfW also provided direct grants at home and also abroad —for example to help ease the plight of the world's poorest countries.

The credits and grants together made up a grand total last year of DM 14.6bn pledged, compared with DM 14.1bn in 1984.

One big question (the most interesting one for potential foreign investors) is where the bank gets its money. The answer is that the development aid operations as well as part of the export credit and domestic loans are financed directly from the Federal Government Budget.

But that still means that the majority of KfW's funds must be sought on the capital markets through the issue of bonds, notes and Schuldscheine (certificates of indebtedness).

Last year DM 8.4bn was raised in this way and a similar sum will probably be needed from the capital markets this year too.

Here big changes are under way, spurred by the steps to liberalise the German capital markets further over the past two years. One key development was the abolition in August 1984, of the coupon tax which foreigners used to have to pay on the interest they received from German domestic bonds (including, of course, those of the KfW).

Before abolition, many foreigners naturally concentrated on investing in Schuldscheine, which were not subject to the tax—but now they are piling into bonds. Nowadays the share of KfW bonds held by foreigners is still less than 20 per cent but it is increasing steadily.

It would do so more quickly if the institution itself were more widely known—not least the fact that KfW bonds are prime quality instruments comparable to the (much more renowned) bonds of the Federal Government, post and railways (Deutsche Bundesbahn).

Like IKB, the KfW is also making growing use of new financial instruments in its funding — instruments on which the Bundesbank (the central bank) frowned until finally giving them the green light from May last year. For example the KfW has already tapped the markets this year with a zero coupon bond issue and a Yen 12bn (DM 150m) currency swap.

Mr Manfred Schüler, an executive board member, emphasises that in both cases KfW has been able to cheapen its funding costs without taking on extra risks. He says that the bank plans to make further — cautious — use of these and similar financial innovations, which is another sign that KfW's name will be better known internationally before long.

Jonathan Carr

DEUTSCHE BANK remains easily the biggest and most profitable of the West German banks. Last year its group assets totalled DM 237.2bn; and operating profit is thought to have exceeded DM 4bn, though Deutsche, like other German banks, gives no precise figure for these earnings. But the other members of the "big three" also had strong results. Dresdner Bank group assets totalled DM 188.7bn, with operating profit exceeding DM 2.5bn, while the Commerzbank group had assets of DM 137.2bn and operating profit of some DM 1.5bn. JONATHAN CARR portrays the men at the top of the "big three."

Bossing the Big Three

RÖLLER (left), of the Dresdner, first joined the bank as a Pfennigless student and returned to it after leaving to complete his studies. SEIPP (centre), of Commerzbank, carries the nickname "Walter the Tank," in tribute to his determination. CHRISTIANS (right), of the Deutsche Bank, is something of an enigma, whose forefathers were in farming, law, engineering, theology, though not finance

Deutsche Bank

IT WOULD seem absurd, on the face of it, to call F. Wilhelm Christians a mystery man. After all he has for a decade shared the top job at Deutsche Bank as one of the two "spokesmen" of the executive board, first with Wilfried Guth, now with Alfred Herrhausen.

He is a past president of the Federal Association of German Banks, sits on the supervisory boards of some of the country's best-known companies — and so on. One can hardly do all that and stay out of the public eye.

Yet Mr Christians, who is 64, remains something of an enigma. Some chief executives are so closely identified with their companies that it is hard to separate the two. Others give the impression that their work is like a fascinating, strenuous but ultimately expendable hobby.

Like, for example, Marcus Bierich, the broadly talented head of the Bosch electricals concern, Mr Christians surely belongs to the hobby category. He has given a lot of time to Deutsche Bank over nearly four decades — but that is not to say that he has devoted his whole life to it.

If he had followed either in the family footsteps, or his initial inclination, he would never have become a banker. His forefathers were in farming, law, engineering, even theology but not finance. His own ambition after the war was to become a diplomat. He had fought as a cavalry officer (riding is still one of his abiding passions) and been wounded on the Russian front.

Later he studied law and political science and then, in 1949, did a spell with Deutsche Bank to fill in time, planning to go on from there to a "real" diplomatic career.

Instead, he liked the banking atmosphere and stayed, learning the business from scratch and at first earning less than DM 200 a month (after deductions). He worked his way up through offices in Aachen, Cologne and Dusseldorf, joined the executive board as a deputy in 1965 and became a full member two years later.

In 1976 he began the "co-speaker" partnership with Mr Guth, a highly successful one despite (or perhaps even because of) the fact that the two men are very different.

Many observers tended to see Mr Guth as the peripatetic "foreign minister" of Deutsche Bank with Mr Christians more responsible for domestic affairs and somewhat in the shadow of his colleague.

For one thing Mr Guth had a broader professional background behind him, including experience in central banking and the International Monetary Fund. For another, Mr Guth (now head of the supervisory board) looks like an ebullient prize fighter ready, as it were, to grapple with the debt crisis single-handed if need be.

Mr Christians, silver hair neatly combed, is always elegantly suited. He has a wide selection of striking neckties which brought him an award a few years ago from the German tie industry. All that may have contributed to a feeling that, of the two "speakers," Mr Christians was a relative lightweight. Whatever the reason, the impression was wrong.

True, he has long been especially active in the German securities business, working to breathe more life into the moribund domestic stock market. It certainly gives him special pleasure to see over the past few years the "renaissance" of the German share, with more private companies "going public"—not least under the wing of Deutsche Bank.

But that does not mean that his sights ended at the German frontier. For example, he laid the basis for Deutsche's investment banking offshoot in New York, negotiated the establishment of a similar operation in Tokyo, and travelled regularly to the Soviet Union from 1969, not least to negotiate finance for the big natural gas-pipeline deals with the West.

Over the past 17 years he has forged close links with top Russian officials (including Mr Mikhail Gorbachev) which many Western politicians and businessmen might envy.

But it is not all business. Mr Christians loves Russian art, especially the art of this century, and has played a key role in arranging the exchange of exhibitions between the Soviet Union and West Germany. His contacts in Russia include painters who do not, to say the least, enjoy the approval of Soviet officialdom.

He has two particular qualities which go far to explain his success. One is that he can hold on to tough positions but express himself in such a way that he never seems rude or unreasonable. It is worth noting that (like the late computer wizard Heinz Nixdorf) he comes from the Westphalian town of Paderborn, whose citizens are renowned for their tough determination.

The other quality is patience. Mr Christians recognises the value of planting the seeds of future business, not just of throwing out a net to catch a passing shoal of easy clients. For example, he has been on the supervisory board of the state-owned VIAG energy and chemicals concern for nearly two decades. From the start he was urging that an issue of shares be made to the public.

Many problems intervened, however, and only this year has the step finally been taken—with Deutsche Bank leading the issue consortium.

The VIAG deal is one of several (Springer and Flick are others) which have brought Deutsche Bank criticism as well as praise and have helped to rekindle the old controversy about whether the banks—especially Deutsche—have too much power.

Mr Christians insists that the critics greatly exaggerate and that it is simple for some politicians to gain easy applause at the banks' expense. But one thing is certain; Deutsche Bank is unusually influential because it is a canny, well-run institution which was often able to "keep its head when most around were losing theirs."

Despite many factors which still tell in its favour, there is no cast-iron guarantee that it will always maintain its big lead. It has some increasingly lively rivals, not least the Dresdner Bank.

The man who is in part the cause, and certainly the embodiment, of the new spirit at Dresdner is Mr Wolfgang Röller, 56, who became "spokesman" at the beginning of last year.

Dresdner Bank

A dynamic person who seems to be in almost perpetual motion, he will push through a throng of people, nodding here, pressing a hand there as though to say "excuse me but I must be off shortly to make money for the bank"—which he has been doing for Dresdner for over 30 years.

That is a superficial impression, of course, but there is nonetheless something in it. Dresdner under Mr Röller is on the move again after a period in the doldrums. It is also a happier place than it was in the recent past.

Back in the mid-1970s under the late, distinguished Jürgen Ponto, many people felt that Dresdner Bank was going to catch up with Deutsche — or at least markedly narrow the gap. Then in 1977 Ponto was murdered by terrorists and Dresdner chose an outsider, the Federal Economics Minister Hans Friderichs, as the new "spokesman."

It would be unfair to blame on Friderichs all Dresdner's troubles in the following years —including loan losses at home and abroad and friction among top management. But the fact was that in a particularly tough period for all credit institutes it did not help Dresdner Bank to have at its head a man whose background was not in banking.

Moreover, Friderichs later faced corruption charges in connection with the Flick bribery affair. He firmly denied any involvement but finally stepped down in order to fight at his trial — which is still going on.

With Mr Wölfgang Röller Dresdner Bank has got "one of its own" as boss again. He first joined the bank briefly as a virtually pfennig-less student in the early 1950s, went back to university to complete his economics studies, then returned to Dresdner and immediately plunged with enthusiasm into securities trading.

He is obviously intensely loyal to Dresdner and really loves the business of banking.

Some say he even loves banking a bit too much, pouncing on matters of detail which he might do better to delegate. But there is no suggestion that he does not know banking from top to bottom. For Dresdner he is the right man at the right time—its senior capital markets expert moving into the top job as the "securitisation" of business gathers pace at home and abroad.

By the early 1960s he was already head of the bank's stock market department and he laid the groundwork for Dresdner's notably successful brokerage and investment banking activities in the US. Not least he played a key role in the dramatic deal of 1974 when Dresdner arranged the disposal of the Quandt family's stake in Daimler-Benz to Kuwait.

Few people would be surprised to see another big Quandt deal emerging one day, with Mr Röller again playing a decisive part.

At home he has been one of the main catalysts for change in the archaic German stock market system (though it is hard to believe he is fully satisfied with the progress made so far). He clearly aims to promote the international side of Dresdner's business.

That means extending the existing operations in London, New York and Tokyo, offering a broader range of financial management services and playing a greater part in cross-frontier mergers and acquisitions.

Under Mr Röller the bank is also managing the liabilities side of its business better and is firmly cutting such unpromising activities as its involvement in the loss-making DAL leasing concern. It would be absurd to attribute to the new "spokesman" alone the sharp rise in Dresdner's profits in 1985—a good year for almost all banks. But it is fair to say that it is much better prepared for the future in personnel and policy terms than it was even a few years ago.

COMMERZBANK

If Dresdner was limping for a time, Commerzbank looked to be almost on its knees—at least until Mr Walter Seipp picked it off the floor in 1981. Mr Seipp, 60, has been given the nickname of "Walter the Tank," implying that once he has set himself on a course he is not easily deflected.

One small incident helps to illustrate that quality. At an international symposium early this year he was talking in fluent English until one word eluded him. The audience waited for what seemed an age, expecting him either to omit the word or make do with a "near miss." He did neither; he just sat impassively in deep thought until he remembered the word and then resumed his speech. It took time but he got it right in the end.

He has displayed much the same single-mindedness at Commerzbank, which had plunged into an operating loss and been forced to omit its dividend for the year before he took over. At first many people wondered whether he could pull the bank out of the slough of despond or be dragged into the morass himself.

Now they have their answer. Commerzbank's profits have boomed, the structure of its business has improved and its capital base has been strengthened. Indeed the bank is already able to meet the tougher capital-to-lending rule of the newly revised German credit law, something it was hard to believe would hapen so quickly even a year or so ago.

Naturally, Mr Seipp, too, has been helped by the West German economic upswing and improved banking climate of the past few years, but it would be unfair not to give him the credit due to him. He was able to give a strong lead (very much "chief executive" rather than "spokesman") while encouraging middle management; and he introduced a new monitoring system to avoid the grave mismatching of lending and funding that had previously hampered Commerzbank's earnings. If that sounds solid but unadventurous, it is not the whole tale.

Before joining Commerzbank Mr Seipp was responsible for the highly active Eurobond business at Westdeutsche Landesbank, and he is one of the most forthright advocates of a more innovative German capital market. Indeed, he has been a bit too forthright for the Bundesbank and some of his colleagues in other banks, with his calls for "offshore" banking facilities to be set up in West Germany to help to repatriate part of the business which slid away to Euromarket centres abroad.

There is no evidence yet that the Bundesbank will give the green light to such a step, but that does not mean it will never happen and—as usual—Mr Seipp is sticking to his guns.

Not surprisingly under such a leader, Commerzbank has been among the most active German banks in seizing the chances offered by new financial instruments. With such enterprise it is unfortunate that Commerzbank managed to blot its copy book with its ill-judged rights issue early this year.

But that alone does not alter the fact that Commerzbank under Mr Seipp's leadership is one of the most improved credit institutes in West Germany.

PROFILE: THE JURGEN PONTO FOUNDATION

Art and youth transcend terror

Jürgen Ponto . . . used his finance and influence to help the young

THE JURGEN Ponto Foundation is just one of many varied initiatives by West German businesses to support the arts but because of its dramatic origin, its special aims and its success, it is certainly among the most striking.

Nine years ago this month, Ponto, head of the Dresdner Bank, was shot dead by terrorists at his home near Frankfurt. His murder caused a special wave of revulsion, even in a year which brought several other deadly terrorist attacks in Germany.

Ponto was not just a talented banker, but also a man of great personal charm and unusually wide interests, especially in the arts, where he constantly used his finance and influence to help the young.

He was, as a speaker at his memorial service said, "a representative of an order which, in its ideal form, by no means always achieved, combines economic success with social justice, hard work with active humanity, business instinct with cultural and social responsibility."

The terrorists' instinctively recognised this—which is why they picked out Ponto in particular as a victim.

Ponto's widow, Ignes, and the bank sought the most appropriate possible memorial. They agreed that efforts should be made to continue the support for young artists — musicians and writers, as well as painters and architects — which Ponto had begun. Thus the idea of the Jürgen Ponto Foundation was born.

More than DM 5m capital was raised, through hundreds of individual contributions and — not least—from the proceeds of a 1978 concert by the Berlin Philharmonic Orchestra under Herbert von Karajan, who knew Ponto well.

The foundation works in this way. A group of trustees is headed by Dresdner's chief executive Wolfgang Röller, and includes well-know figures in the arts, such as the writer and historian Golo Mann. There are also two honorary executive directors, one of whom is Baron Bernhard von Loeffelholz, a former close aide to Ponto. Broadly speaking, the directors propose where the funds could best be spent, except decisions are taken jointly with the trustees.

There are two main aims. One is to help promising young artists just starting out on their careers, the other to foster group artistic activities like school choirs and theatre companies. Young artists who have already at least partly "arrived" are not generally supported, though the foundation can often put them in touch with other bodies that can help.

Here, von Loeffelholz is a useful go-between as he also plays a leading role in the arts-support group set up within the Federation of German Industry (BDI). His double role also helps avoid overlap between the BDI's efforts and those of the Ponto foundation.

The foundation does not only support young German artists but also foreign artists living in Germany. For example, when the foundation first staged a competition for young composers in 1979, the top prize went to a Japanese, Takehito Shimazu.

Talented young instrumentalists lacking funds for further training are helped with grants and interest-free loans. The idea of the latter is that young musicians who "make it" with a relatively steady income should pay back loans to the foundation, and thus help another generation of the talented but impecunious.

One of the foundation's most ambitious projects is the "Schools make Music" series, arranged with the German Music Council and other bodies. These gatherings regularly bring together, in different cities, school choirs and instrumentalists from all over the country to give concerts in hospitals, homes for the elderly, churches and so on. The most recent gathering took place last year in Berlin and brought together about 900 young people.

Other events which the foundation helps to support with funds include the Bayreuth Youth Festival, which every year brings together young people from East and West in parallel with the town's Wagner festivities.

Music was a special love of Ponto, and is naturally given a lot of attention by the foundation, but the other arts are not forgotten. Funds are made available, for example, to authors writing a first book. The choice is particularly hard, and is made only after intensive consultations with publishers and other experts, but so far the foundation feels it has picked well. All the authors it has supported have gone on to write a second book (apart from the most recent beneficiary, Elmar Schenkel, who last year received DM 15,000 for his first work and has hardly had time to produce another!).

Similarly, on the visual arts side, the foundation sponsors regular exhibitions and asks collectors, as well as other experts, to propose young, little known artists for inclusion. An independent jury then selects two or three from among the exhibitors, who receive awards of up to DM 20,000 from the foundation.

Young architects are helped, too. For many years the foundation arranged lengthy stays abroad, enabling them to do practical work in the offices of noted foreign architects. This effort has lately been undermined by the difficulty of obtaining work permits at a time of high international unemployment. The foundation has therefore taken to arranging briefer visits abroad, most recently to study the architecture of Japan.

All in all, the Ponto Foundation has spent around DM 2m in its first eight years on prizes, grants and so forth. But that sum understates the overall benefit to many young artists who have first become known to a wider public through the concerts and exhibitions which the foundation has sponsored. It is an achievement which would surely have given Jurgen Ponto a great deal of satisfaction.

Jonathan Carr

PROFILE: SCHRODER, MUNCHMEYER, HENGST

On being seen to be German

John Hobley . . . says last year's profits were 50 per cent up on 1984

TWO YEARS have passed since Lloyds Bank surprised the banking world by offering to buy Schröder, Münchmeyer, Hengst (SMH), the collapsed German private bank. It was a bold move—some said a gamble—but it seems to be paying off.

"I'd say they've got SMH back to where it was before the trouble," commented a Frankfurt-based foreign competitor who has observed SMH's rehabilitation. Lloyds will not say exactly how much it paid for SMH, or how well it is doing. But Mr John Hobley, SMH's chief executive, says that last year's profits were 50 per cent up on 1984, and that this year should be better still, based on a good first six months.

Lloyds decided straight away to keep SMH's name, even though the highly publicised trial of SMH's former management for fraud was bound keep alive unsavoury associations (as it has). This was in order to retain SMH's staff and its good clients. "Whatever the disadvantages, the advantages were those of being seen as German bank, and a private bank," said Mr Hobley.

Even the Lloyds parentage is played down. SMH's literature carries only its own name, and appears between aubergine covers, rather than the bright green of the Lloyds group. Clients are told of a "link" with Lloyds—and then only if SMH thinks that will have a positive connotation.

Although Lloyds rolled all its existing operations into SMH—which now employs about 400 people—its real strength has been the access it has given Lloyds to smaller and middle market German banking clients whom foreign banks usually find it hard to reach.

Even so, with the recent boom in the German markets, well over half of SMH's revenues have come from its securities business rather than banking. The group has concentrated mainly on serving foreign institutional clients wanting advice or securities services on the German market. It also has a portfolio management side, a private banking clientele, and trades in domestic bonds. There is a research capability as well.

Although SMH has long been a member of the Federal bond consortium, it has not got into the new issue business, where management feels there is little money to be made in Germany unless you are very big.

SMH reports back to Lloyds in London through both the geographic line of command and to Lloyds Merchant Bank, the newly constituted merchant banking arm which is handling Lloyds' entry into the UK securities business. As well as acting as a channel to the German investment market for Lloyds, SMH helped form the European consortium which Lloyds put together to mount an alternative bid for Westland helicopters last winter.

SMH could grow substantially if Lloyds' current £1.3bn bid for Standard Chartered Bank goes through. Standard has a long-established German business based in Hamburg employing 200 people. According to Mr Hobley, the two do not overlap greatly, and the German market is one where the merger makes sense, he says.

David Lascelles

SECTION II - COMPANIES AND MARKETS
FINANCIAL TIMES
Monday July 7 1986

CREDITS AND EURONOTES

Fears over tax curb on Australian borrowers

THE EUROMARKETS' very existence is due in part to bankers' nimble adjustment to differing tax and regulatory regimes, and they were given a new set of problems to chew on last week by a surprise move from Mr Paul Keating, the Australian Treasurer, writes Alexander Nicoll in London.

Australian borrowers have been drawing ever more heavily on the Euromarkets. According to Euromoney, they have arranged note issuance facilities and Euro-commercial paper (ECP) programmes totalling $13.9bn since the beginning of 1985. They tend to be above-average users of ECP programmes, bankers say, and best guesses probably put Australian ECP actually in issue at some $2bn or perhaps 7 to 8 per cent of the market.

The direst of initial predictions had all such financings being scrapped as a result of Mr Keating's imposition of a 10 per cent withholding tax on most of the Australian foreign borrowings which had been exempt. These fears, however, appear too extreme.

Although many details remain to be clarified, it is almost certain that any new short-term paper issued under existing note issuance, ECP or other such facilities will become subject to the tax, including rollovers or renewals of current issues.

The immediate effect has been to put into suspense the arrangement of many mandated deals, including those for Pioneer Concrete, Amatil, Ansett, ICI Australia and James Hardie Industries. Recently established programmes for Westpac Banking and Morgan Guaranty Australia are unlikely to be drawn. But a sterling commercial paper deal for FAI Insurances will remain in place.

The Australian Wheat Board, among the largest ECP issuers of any nationality with perhaps $500m of paper in the market, is expected to continue issuing. Others may do so if only for the time being while they consider what financing alternatives are available.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
US$	3,372.4	841.9	701.6	2,926.3
Prev	4,439.8	789.9	690.2	2,812.7
Other	774.8	–	794.8	107.5
Prev	1,597.4	–	161.1	130.8
Secondary Market				
US$	26,990.4	1,789.1	10,958.6	4,685.8
Prev	23,702.8	981.4	13,135.5	3,709.5
Other	9,130.8	114.9	1,999.0	2,862.9
Prev	10,525.7	169.9	1,995.3	3,264.5

	Cedel	Euroclear	Total
US$	17,527.3	34,617.9	52,145.2
Prev	13,598.6	36,653.2	50,251.8
Other	7,281.8	8,496.9	15,778.1
Prev	8,665.9	9,178.8	17,844.7

Week to July 3 1986 — Source: AIBD

Mr Keating's measures, considered by bankers to be a retrograde step running counter to global trends, have pushed up domestic interest rates and weakened the Australian dollar. They may also have highlighted Australia's economic problems for international investors and made them more cautious – given the recent fast pace of borrowing – about investing in the country as a whole.

But Australian names are unlikely to disappear. Their sheer need for funding would put too great a strain on the capacity of domestic markets, and a big increase in domestic rates could even make it attractive to borrow abroad regardless of the tax. So the real question is, if not exactly how to get round the tax, then how to borrow in the most tax-efficient manner.

It seems clear that the government will not allow obvious loopholes which have allowed borrowers in, for example, New Zealand to avoid withholding tax. But those with international business could be unaffected if they do not need to repatriate funds borrowed by offshore vehicles, or unconcerned if their business provides them with a natural hedge.

Japanese and some European banks are already offering to arrange deals in which, at some cost to the borrower, they would absorb the tax, on the principle that, as one banker put it, "a withholding tax in one country is a potential tax deduction in another, particularly if there is a double taxation treaty." But the scope for doing this is limited.

There are likely to be many other devices aimed at reducing the impact of the tax, and the differing treatment of existing and new debt could also create opportunities for swaps and arbitrage. In the bond market, the tax will encourage borrowers to issue more convertibles and other low-coupon debt.

Among new deals is a £200m five-year credit for Halifax Building Society, being arranged by Morgan Guaranty effectively at 15 basis points over Libor with a ⅛ commitment fee.

Morgan Guaranty also has the mandate for a Turkish motorway loan. Banks subscribing to a $120m Euroloan, carrying a Turkish Government guarantee, will be asked to take part in an additional $120m US Eximbank-guaranteed loan. Turkey is also due to raise a World Bank-linked loan, but this will be in yen.

The sterling commercial paper market got a boost from Norsk Hydro's announcement of a programme of unspecified size with County NatWest Capital Markets and Swiss Bank Corporation International as dealers.

Italy's Montedison has appointed Citicorp, Goldman Sachs and SBCI as dealers for a $200m ECP programme. Sparebanken Vest, a Norwegian savings bank, has a $100m Euro-certificate of deposit programme arranged by Salomon Brothers International with five other dealers.

Another Norwegian bank, Sunnmoersbanken, has appointed Enskilda Securities and First Interstate Capital Markets for a $50m ECP and ECD programme.

Merrill Lynch is arranging a $100m revolving underwriting facility for General Instrument of the US. Mitsubishi Trust & Banking led a $50m loan for ACOM, a Japanese consumer finance company.

Horten goes into red but sees recovery

BY OUR FINANCIAL STAFF

HORTEN, the big West German department store group, has slumped into the red for last year, turning in a net loss of DM 84.4m ($38.5m) against a previous surplus of DM 20m.

The company, which is 51 per cent owned by BAT Industries of the UK, is confident its results will show a significant recovery in the current year. It says sales for the first four months of 1986–87 were running some 26 per cent higher.

For last year, which ended in February 1986, sales could only improve by 1.2 per cent to DM 2.9bn. At the trading level, returns were severely hampered by Horten's need to absorb some heavy costs associated with group streamlining and disposals.

In the past two years, Horten, Germany's fourth-largest retail group, has revamped its product range as part of a plan to create an image of a speciality department store composed of small boutiques and shops.

As part of what Horten termed "the final streamlining," the company recently sold its low-priced gift shop subsidiaries, Dogmoch and Ypsilon Geschenke Vertrieb. The rationalisation measures were now beginning to pay off, Horten said.

The group, which lost its chief executive to rival retailer Karstadt last October, has had a recent chequered past. Its DM 20m of net profit for 1984–85 compared with DM 36m a year earlier.

This led to a cut in the dividend from DM 6 a share to DM 4. There is to be no dividend for last year.

BAT first took an interest in Horten in 1971, increasing its stake to 34 per cent eight years later. The UK tobacco, paper and retailing group took full control in 1984.

INTERNATIONAL BONDS

Few dollar issues despite buoyant Wall Street

THE DIVERGENT fortunes of the Eurobond and US Treasury markets were highlighted last week when a mere handful of fixed rate dollar issues emerged despite surging bond prices in New York, writes Clare Pearson in London.

When discount rate cuts were in the offing in March and April of this year new issue managers were able to lock a host of eager borrowers into historically low interest rates in the Eurobond market. These days, it seems, seasoned Eurobond prices may tick up a few points on hopes of a US discount rate cut but syndicate managers bring new issues at their peril.

One reason is that houses already have substantial long positions. In the spring, Eurobond issuing houses allowed enthusiasm for positioning to prevail over realism about distribution opportunities. Investors' indifference to an over-supply of aggressively priced paper left houses with huge potentially loss-making long positions, severely limiting their ability to generate more volume now.

Another reason is the fear among investors that any near-term reduction in interest rates may be the last for a long while. The flatness of the US Treasury yield curve between the three and 10 year maturities testifies to this uncertainty.

When there is a mere 40 basis points to be gained by extending portfolios out to 10 years, the risk of taking on 10-year paper hardly strikes investors as worthwhile and they shorten up their holdings.

Eurobonds with "normal" maturities of between five and 10 years are thus extremely hard to sell, while issuers hardly relish three-year borrowings with rates at historic lows.

On Friday Morgan Stanley managed to turn this uncertainty over the direction of interest rates to their advantage. A $200m deal for Credit Lyonnais was successful despite its seven-year maturity because $100m of the issue was partly-paid. Since investors will have to pay up only 16¼ per cent of a 101¼ per cent issue price to gain a play on interest and exchange rates, they responded with enthusiasm.

Credit Lyonnais' deal contrasted sharply with Banque Paribas' attempt to launch a 10-year deal in the sterling sector on Friday. This was for another French borrower, Compagnie Bancaire.

Dealers have said that sterling securities have increasingly attracted overseas attention because they combine the advantages of a firm dollar exchange rate with high yields.

Investors still apparently require a spread over gilt yields on sterling Eurobonds, however. Cie Bancaire's 9½ per cent bond was priced at 101¼ to give a yield of about 20 basis points over that on gilt-edged stocks. The market found this not enough, and Paribas was compelled to withdraw it hours after launch.

D-Mark bonds similarly benefit from a strong currency. Diminishing hopes of a cut in West German interest rates have deprived the market of impetus, however, and many recent deals are trading outside fees. Last week did, however, see one successful financing. This was a 10-year 6 per cent bond for the World Bank, led by Deutsche Bank. On Friday this was quoted at a bid price of 98.70 as against a par issue price.

In the Euroyen sector there is a strong expectation that the Bank of Japan will cut its discount rate soon but this is offset by a feeling that yields have not much further to drop. The benchmark Japanese No. 78 domestic bond traded on Friday at a yield of 4.65, and dealers did not see much chance of a substantial reduction if rates were cut.

Lack of enthusiasm for all but sovereign names has precluded the launch of a number of issues for foreign banks, which have been permitted by the Ministry of Finance since the beginning of last month. Until the end of last week only two such deals had surfaced, launched by subsidiaries of their issuers. Late on Friday, however, Nikko Securities produced a third, a Y40bn deal for Barclays Bank.

The deal came too late in the day to trade actively, but its 10-year maturity and 6 per cent coupon struck dealers as tight.

While sovereign issues survive better in the markets dominated by institutional investors, the retail-dominated Swiss franc market is showing signs of responding well to good corporate names despite its overall lack of enthusiasm. A recent 5 per cent 10-year bond for United Breweries, for instance, gained two points in price in the course of last week.

With fixed rate markets looking so lacklustre, while equity markets continue buoyant, many issuing houses apparently find it the best policy to launch corporate debt in equity-related form. A crop of such deals emerged last week. The sector was dominated by issues for Japanese borrowers. Coupon levels on such deals seem now to have stabilised in the 2¾ to 3 per cent region, and most deals traded at slightly below par.

Japanese government bonds give best return

BY PETER MONTAGNON IN LONDON

JAPANESE government bonds offered the best total return on world bond markets in the first half of this year, largely due to the steep appreciation of the yen, according to latest figures from the US investment house Salomon Brothers.

An investor who bought Japanese bonds at the start of the year would have received a total return of 31.8 per cent by June 30, after taking account interest, receipts, capital appreciation and exchange-rate gains.

The impact of exchange-rate gains is measured by calculating total return first in domestic currency and then translating that into dollars to give a standard comparison across a range of major currencies.

Salomon's latest performance indicators for world bond markets show the strong impact of currency movements over the past six months. The worst return on bond markets was offered by dollar floating-rate notes at just 4 per cent though this was partly also because floating-rate notes offer no capital appreciation at times of declining interest rates.

In general longer-term bond markets outperformed money market instruments in the same currency during the period under review. The best return on a money market instrument was offered by Japanese domestic certificates of deposit at 26.2 per cent after accounting for currency gains

● Four of the world's five largest banks are now Japanese, ranked in terms of assets.

According to the latest listing of the world's 500 largest banks by The Banker magazine, top place is still held by Citicorp of the US with $167bn. But next four places are held by Japanese institutions: Dai-Ichi Kangyo Bank ($156bn), Fuji Bank ($142bn), Sumitomo Bank ($135bn) and Mitsubishi Bank ($133bn).

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Andriana Ierodiaconou reports on a possible clash of accounting ideologies

Greek auditors concerned about state role

CONCERN IS growing within the independent accounting profession in Greece over recent reports of government plans to expand the role of the Body of Certified Public Accountants (SOL) in the auditing of company financial statements.

According to Commerce Ministry officials, the number of companies for which the law prescribes a statutory audit by SOL will be increased when Greece implements the European Community Fourth Directive on the harmonisation of company law. This pertains to financial statements.

Officials said that barring unforeseen delays, the Government hoped to introduce the directive by January 1987. The relevant presidential decree is said to be ready in draft form.

The Fourth Directive will be the first of a number of directives on the harmonisation of the structure and operation of private sector companies in the Community to be implemented by Greece.

While they deplore the Government's plan to combine the introduction of the Fourth Directive with an expansion in SOL's role, executives of international accounting firms operating in Greece say the directive's provisions will lead to sorely needed reforms in the drafting of company annual financial statements.

At present, in the absence of a codified set of accounting principles or clearly defined accounting concepts, financial statements in Greece are designed mainly to satisfy the requirements of the tax authorities, rather than to present an accurate picture of a company's financial situation.

The lack of reliable financial statements, the executives say, acts as a brake on foreign investment, and is largely to be blamed for a number of problems and distortions in the Greek economy, notably the hypotonic state of the stock exchange, the banking system's heavy reliance on property collateral for granting loans and the phenomenon of the so-called "problematic firms"—several dozen financially ailing companies which have continued to receive bank financing for years despite a precarious financial state.

These companies pose a major headache for the Government, which has taken over their management and is trying to settle their debt problem with the minimum damage to the banking system.

These problems, however, are also intimately linked, in the view of independent accountants, with the auditing regime in Greece, which is idiosyncratic by EEC standards.

The dominant auditing body is SOL, which is run by a five-member supervisory council appointed by the ministries of the Economy, Commerce and Finance. SOL was originally set up in 1955 by a team of UK accountants charged with establishing the profession in Greece. The idea was that it should operate as a government agency for a transitional period, at the end of which it would give way to a professional institute, to serve as the pillar of an open accounting profession in Greece. This transformation never came about, however.

At present the law requires that SOL act as the statutory auditor for all quoted companies, insurance companies, petroleum companies, and, since 1984, for companies of Societe Anonyme (SA) status with fixed assets of more than Drch 400m ($2.8m).

Certified accountants outside SOL—of whom about 400 to 500 are employed by international accounting groups with offices in Greece—are not recognised as competent to perform these statutory audits. Their work is therefore limited to non-statutory audits and related services.

According to the Commerce Ministry, SOL's competence will be extended to SAs with fixed assets below Drch 400m when the Fourth Directive is implemented.

Over the years, accountants outside SOL have set up a number of associations to promote professional standards and the case for an open accounting profession in Greece. At present the main such body is the Association of Certified Accountants and Auditors of Greece (SELE). Most Greek accountants working for international accounting groups are SELE members.

In SELE's view, SOL's state connection is incompatible with professional principles of accounting independence. As an example it cites legislation passed last year which requires SOL auditors to report tax irregularities which come to their attention in the course of their work directly to the Finance Ministry.

SOL for its part argues hotly that state supervision is not synonymous with state control, and cites the fact that its members, of whom there are over 400 of various grades, are taxed as self-employed professionals. In SOL's view the fact that since 1955 when the organisation was established there has been no case of a member auditor ever facing sanctions for work improperly done, constitutes proof of the high quality of its services.

Above all SOL insists that it is accountants outside of the organisation who are not truly independent, in being beholden for a directly negotiated fee to their clients. SOL auditors are salaried: companies pay a set fee set by the supervisory council to the organisation.

Commerce Ministry officials make clear there are no thoughts at present of promoting an open accounting profession in Greece, although they do not rule out future moves in this direction.

Part of that framework may start to fall into place when Greece introduces the EC Eighth Directive, pertaining to the qualifications of persons capable of performing audits of financial statements, and the examinations for obtaining a practising certificate.

The deadline for the Eighth Directive, for which Greece has not yet started the groundwork, is January 1988. Until then, and beyond, SOL appears to be here to stay.

AT&T to open Bell research unit in Japan

BY CARLA RAPOPORT IN TOKYO

AT&T, the US telecommunications group, is planning to open the first overseas subsidiary of its Bell Laboratories research unit in Japan this week.

According to Mr William Moody, head of AT&T's operation in Japan, Bell chose Japan for its first offshore facility because of the country's acknowledged leadership in applying technology to the information and communication industries.

The unit will initially monitor technology developments in Japan, but may move into applied scientific research. It is the latest in a series of similar moves by companies anxious to internationalise their research and development activities.

At a speech in Tokyo, Mr Moody said that AT&T remains optimistic about increasing its sales in Japan despite the ingrained belief of many customers that foreign products are automatically suspect. "People fundamentally come to the table doubting that this (foreign product) will work," said Mr Moody. "We have to prove ourselves," he said.

Despite this drawback, AT&T has managed to increase Japanese sales by a factor of four in the past year, its first year of operating a full Tokyo office. AT&T now has 100 employees in Japan, compared with about 30 a year ago. The company mainly sells software packages for communication equipment in Japan.

"The perception that Japan is better, that perception is deep and fundamental . . . and one which is very difficult to overcome," said Mr Moody. However, he said that good marketing techniques and persistence were the main ways of overcoming it.

"In America, we put the technical specifications last. Here, the specs are the first thing people look at," Mr Moody added.

NEC earnings slide by 59%

By Yoko Shibata in Tokyo

NEC, the Japanese electronics maker, and its group companies registered a 59.5 per cent slide in net profits to Y27.19bn ($168.8m) for the year to March.

It blamed the fall on weak markets for electronic devices as well as the yen's steep appreciation, which eroded export profit margins. Sales totalled Y2,334.67bn, up 3 per cent, a good demand was felt for computers and communications equipment.

The consolidated results reflected the performances of 49 subsidiaries. Pre-tax profits overall dropped 15.6 per cent to Y117.82bn, while net earnings per share were Y19.60 against Y48.87.

For the current year, consolidated net profits are projected at Y35bn, a recovery of some 30 per cent from the latest period, but still far below the 1984-85 level of Y67.13bn. Sales are expected to reach Y2,600bn, up 11 per cent.

Germans fear ITT-CGE deal will mean lost jobs

BY JONATHAN CARR IN FRANKFURT

FEARS OF possible job losses could prove an obstacle to West German participation in the big telecommunications venture proposed by CGE, the French state-owned group, and ITT of the US.

CGE hopes to find partners in Germany, as well as other countries, to participate in a European holding which would have a 70 per cent stake in the planned telecommunications group. CGE itself would have a share of at least 50 per cent in the holding.

But German electricals company officials indicate they would look long and hard at all details of the proposed arrangement before deciding whether to join in.

The senior executive of one company, speaking informally, noted that those with minority stakes in the holding might find themselves bearing a disproportionate share of any job losses required by rationalisation.

The executive added that recent experience of German electricals companies which passed into French ownership had not been wholly happy, and indicated that he had the Thomson group in mind.

In recent years Thomson has acquired several German consumer electronics companies, and announced earlier this year there would have to be a cut of some 1,200 jobs from the overall labour force of 7,700. Thomson is also cutting jobs in France and Spain.

Publicly, German companies have withheld comment on the *planned CGE-ITT linkup so far*, apart from Standard Elektrik Lorenz (SEL), in which ITT has an 86 per cent stake.

SEL has said it believes the proposed deal will strengthen the European telecommunications industry—and help SEL to bigger sales of its System 12 digital exchange.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Naigai ¶	20	1991	5	(3)	100	Daiwa Europe	*
Nagasakiya ¶‡	60	1991	5	2⅞	100	Nomura Intl.	2.875
Nippon Chemi-Con ¶‡	50	1991	5	2⅞	100	Nikko Secs.	2.875
Asahi Glass ¶‡	100	1991	5	2¾	100	Yamaichi Int. (Eur)	2.750
Hisamitsu Pharm. ¶‡	35	1991	5	2⅞	100	Nikko Secs.	2.875
Dainippon Pharm. ¶‡	40	1991	5	2¾	100	Yamaichi Int. (Eur)	2.750
Dainippon Pharm. ¶‡	20	1991	5	2¾	100	Daiwa Singapore	2.750
Toyo Warf & Warehouse ¶‡	20	1991	5	2⅞	100	Nikko Secs.	2.875
Chujitsuya ¶‡	30	1991	5	2⅞	100	Nomura Intl.	2.875
Yukong Ltd. §	20	2001	15	3	100	Goldman Sachs	–
Nagoya Railroad ¶	130	1991	5	(2⅞)	100	Yamaichi Int. (Eur)	*
IBJ Finance ‡	150	1993	7	8	101½	IBJ Int.	7.762
American Ex. Bank (d)†‡	100	1998	12	⅞	100	Shearson Lehman Bros.	–
Bankers Tr. A'tralia (e)†‡	200	1993	7	10bp	100.1	Bankers Trust	–
State Bk of Victoria †‡	300	1996	10	(f)	100	Merrill Lynch	–
Deutsche Bank ‡	110	1998	12	8	100¼	Deutsche Bk Cap.Mkts	7.967
Japan Leasing Corp. ‡	50	1996	10	8⅛	101⅞	Merrill Lynch	7.871
Chugoku Elec. Power ‡	100	1993	7	8⅛	101⅝	Nomura Int.	7.815
Morgan Crucible ¶‡	20	1991	5	9¼	116.7	Morgan Stanley	5.355
Guinness Finance (j)‡	100	1989	3	3	100⅝	Nomura Int.	–
National Guardian (j)§	40	2001	15	(7–7½)	100	Shearson Lehman Bros.	–
LTCB of Japan ‡	100	1991	5	8	101½	LTCB Int.	7.628
Batif (g)₵†‡	100	1996	10	⅛	100	Banque Paribas	–
Tamura Electric ¶	25	1991	5	(2⅞)	100	Yamaichi Int. (Eur)	*
Kumiai Chemical Ind. ¶	40	1991	5	(2⅞)	100	Nomura Int.	*
Credit Lyonnais ‡	100	1993	7	7¾	100¾	Morgan Stanley	7.686
Credit Lyonnais (k)‡	100	1993	7	7¾	100¾	Morgan Stanley	7.537
CANADIAN DOLLARS							
Hydro-Quebec (a)	200	1996	10	*	*	Yamaichi Secs.	*
Newfoundland (c)‡	100	2001	15	10	100	CCF	10.000
Fiberglas Canada ‡	35	1991	5	10	101	Orion Royal Bank	9.738
D-MARK							
Credit Foncier (b)†‡	300	1996	10	5bp	100.3	Deutsche Bank	–
Lindt und Spruengli ¶‡	60	1993	7	2	100	CSFB-Effectenbank	2.000
World Bank ‡	500	1996	10	6	99¼	Deutsche Bank	6.102
Ireland †‡	750	1998	12	(h)	100	Deutsche Bank	–
Renown Lock ¶	45	1991	5	(1¼)	*	Deutsche Bank	*
Mitsubishi Chem. Ind. ¶	300	1993	7	(1¼)	100	Deutsche Bank	*
SWISS FRANCS							
MVG Mode ‡	12	1996	–	6⅝	100	Bqe Gutzwiller, K.B.	6.625
Yamato Int. ¶‡	30	1991	–	⅞	100	J. Henry Schroder Bk	0.875
Ryosan Co. §‡	100	1991	–	1	100	SBC	1.000
CB Pak Inc. Montreal	85	1991	–	(5⅜)	(100)	Bqe Gutzwiller, K.B.	*
Kitano Construction **¶	40 max	1991	–	(1⅛)	*	UBS	*
Flexi-Van Leasing ‡	100	1996	–	6	100	Chase Man. Bk. (Suisse)	6.000
Hanshu Paper Co. **¶	80	1991	–	(1⅛)	*	Credit Suisse	*
Iseki & Co. **§	50	1991	–	(1¼)	*	UBS	*
Mitsubishi Min. & Cem. **‡	40	1991	–	5⅛	100	Crédit Suisse	5.125
Dai Nippon C'struction **¶	30	1991	–	(1⅛)	*	SBC	*
Japan Dev. Bank ‡	100	1997	–	5⅛	100	SBC	5.125
Asfinag ‡	130	1998	–	5¼	100	SBC	5.250
Aoki Construction ¶	100	1991	–	(1⅛)	100	Swiss Volksbank	*
Aoki Construction §	150	1991	–	(1⅛)	100	Swiss Volksbank	*
Province of Manitoba	200 max	1998	–	(5¼)	*	UBS	*
Denki Kogyo **‡	30	1993	–	(1¼)	*	UBS	*
Montreal Urban Comm. ‖‡	35	1996	–	6¾	100	SBC	6.750
Mitsui High-Tec **§	100	1992	–	(1⅛)	100	UBS	*
STERLING							
Alliance & Leicester ‡	75	1991	5	9½	100¼	Citicorp Inv. Bk	9.435
Consolidated Gold §‡	46	2001	15	7½	100	CSFB	7.500
Cie Bancaire	50	issue withdrawn				Banque Paribas	
ECUs							
Euromobiliare Int. §‡	20	1993	7	4	100	Morgan Stanley	4.000
Pargesa Bank Corp. ¶‡	100	1996	10	4	100	BIL	4.000
US Steel ‡	49.45	1995	9	8	100½	Goldman Sachs	7.920
GUILDERS							
Norsk Hydro	250	1996	8	6½	*	Amro Bank	*
DANISH KRONER							
Denmark ‡	500	1991	5	8⅝	99¾	Privatbanken	8.689
C'hagen County Auth. ‡	100	1993	7	9¼	100	Morgan Guaranty	9.250
YEN							
Sweden ‡	25bn	1991	5	5½	101	Nomura Int.	5.287
Barclays Overseas ‡	40bn	1996	10	6	101⅞	Nikko Secs.	5.748
Postipankki ‖‡	10bn	1991	5	8	101½	New Japan Secs. Eur.	7.628
FRENCH FRANCS							
Michelin ‡	750	1993	7	8¼	100	Lazard Freres	8.250

* Not yet priced. ‡ Final terms. ** Private placement. § Convertible. † Floating rate note. ¶ With equity warrants. ₵ With interest floor warrants. ‖ Currency linked. (a) Shogun issue. (b) 5bp over 6m Limean. (c) Coupon refixed after 10 yrs. (d) ⅛ over 3m Libor. (e) 10bp over 6m Libor. (f) Equal to 6m Libid. (g) ⅛ over 6m Libor, interchangeable with FRN issued in March, additional $75m tap. (h) Equal to 6m Libor. (j) Redemption linked to NYSE composite index. (k) Partly paid. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Hopes run high for cut in discount rate

THE Federal Reserve's policy making Federal Open Market Committee (FOMC) meets tomorrow amid a broad expectation that the FOMC members will vote to ease monetary policy.

Indeed, the market has already decided that the Fed's next move will be towards accommodation — some market participants had even been expecting a Fed Discount Rate cut from the current 6.5 per cent at the end of the last holiday shortened trading week.

An early discount rate cut is still a high probability, although, as Dr Henry Kaufman, Salomon Brothers' chief economist, notes: "Some members of the FOMC are still uncertain about the pace of economic activity and the implications of rapid money growth. In addition, the timing of any easing move is still in question."

The FOMC will have before it a wide range of depressing May economic data — numbers which many suggest call into question the possibility of 2 per cent real growth in the first half and indeed a long forecast second half rebound.

However, the June data before the Committee will be limited to the figures on car sales and the employment position.

On the surface the employment data looked positive for the economy because the civilian unemployment rate fell by 0.2 percentage point to 7.1 per cent in June. But private sector economists focused on the non-farm payroll numbers which showed a drop of almost 90,000 jobs—the first decline in almost three years.

"It is a good bet that the monetary authorities will reassess their expectations of a significant second-half acceleration in real economic growth — supposedly promised by declines in energy prices, interest rates and the dollar," says Mr David Jones of Aubrey Lanston.

The FOMC could be in an even tighter spot than usual. For one thing the dollar is weak again—on the other hand Mr Paul Volcker, Fed chairman, goes before Congress in 11 days to give his bi-annual Humphrey-Hawkins testimony, and the political pressure for an early easing is on—despite protestations to the contrary by Mr Larry Speakes, White House Press secretary.

By the time Mr Volcker appears before Congress much more June economic data will be available. If this continues to depict a weak US economy and the Fed has not made an overt easing move, the chairman could be in for a rough ride.

Several factors could make the FOMC and Mr Volker's passage easier. By the time the FOMC meets the Japanese election results will be known. Following Sunday's election, economic policy makers in Japan are expected to move quickly to reduce Japanese interest rates — alleviating pressure on the dollar and making a US discount rate cut more likely.

"Should the Japanese cut their rate, we believe that the Fed will utilise that opportunity to address the weak economy and problems in the banking system," say Smith Barney, economists.

The FOMC meeting tomorrow will also have to address other issues including what to do about the errant M1 money supply measure. Despite last week's decline M1 remains well over target.

The three options appear to be to rebase the targets—an old trick—to repeat that M1 has little policy relevence today, or to redefine M1 to exclude the NOW account component. In general terms the impact would be the same, but as Mr Jones notes: "It would seem that the Fed has to do something about the M1 overshoot if the Fed hopes to maintain anti-inflation credibility."

In the more immediate term the bond market performance is likely to remain dominated by shifting sentiments about the timing of a Fed Discount rate cut.

The prospect of an early rate cut has been evident in the bond markets for weeks—helping send both short- and long-term rates back down towards their lows for the year.

Last week most sectors of the bond market posted modest net gains during relatively quiet pre-holiday trading which ground to a final halt around lunchtime on Thursday.

In the Government market bond prices rose by about a quarter of a point on average while most short-term interest rates fell by between five and 15 basis points.

The Treasury Bill yield curve continued to flatten to only 10 basis points reflecting heightened expectations of an early Discount Rate cut. In the foreign exchange markets the dollar fell.

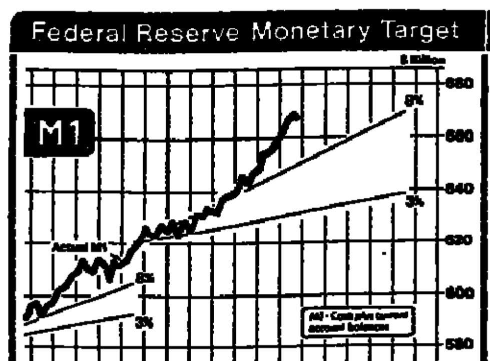
Corporate bond prices were generally unchanged on the week, as were most new issue yield levels. New issue yield volume continued to be brisk with a total of $1.8bn in new debt securities brought to market by the close on Wednesday.

Among the new issues traded for the first time last week was a Deere $100m issue of 9⅛ per cent 10-year notes sold at 99.625 to yield 9.182 per cent.

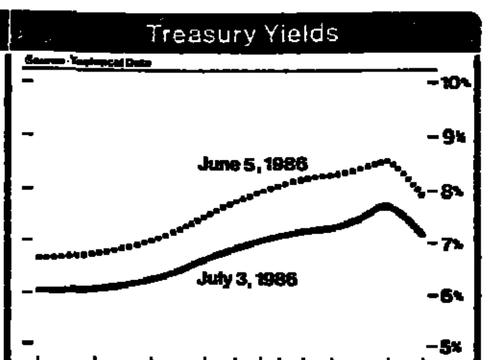
Last week also marked something of a milestone as everyone scrambled to total up their half-year underwriting figures. According to Securities Data Corporation the dollar volume of taxable securities sold in the US reached a record $142.3bn in the first half—not only higher than any previous half year but also greater than the dollar volume for every calendar year in the previous decade.

Paul Taylor

Federal Reserve Monetary Target



Treasury Yields



US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	7.23	6.86	7.04	8.91	6.79
Three-month Treasury bills	6.00	6.00	6.32	7.40	5.78
Six-month Treasury bills	5.95	5.99	6.37	7.46	5.79
Three-month prime CDs	6.52	6.53	6.83	8.10	6.42
30-day Commercial Paper	n.a.	6.70	6.60	8.05	6.38
90-day Commercial Paper	6.42	6.60	6.75	8.00	6.25

US BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	99⅝	+0⅛	7.32	7.53	New
20-year Treasury	115¾	+0⅝	7.80	7.95	8.34
30-year Treasury	100⅞	+0¼	7.22	7.38	7.67
New 10-year "A" Financial	N/A	—	8.50	8.50	9.00
New "AA" Long utility	N/A	—	9.25	9.25	9.38
New "AA" Long industrial	N/A	—	9.00	9.00	9.13

Source: Salomon Bros (estimates).

Money Supply: In the week ended June 23 M1 fell by $1.8bn to $666.4bn.

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
AIFC O/S Fin 11⅛ 94	100	103⅛	0	11.02
AIDC 11 89	75	[illegible]	[illegible]	7.74
Alcan Australia 9⅝ 89	75	[illegible]	[illegible]	8.84
Amer Savings 12 89	125	[illegible]	[illegible]	9.58
Amer Savings 12⅜ 88	100	[illegible]	[illegible]	9.52
Asian Dev Bk 11⅜ 93	100	[illegible]	0	8.44
Australia 11⅝ 90	150	[illegible]	[illegible]	7.47
Australia 11⅞ 95	300	0		
Australia 11⅞ 98	100	[illegible]	[illegible]	8.72
Austria 15⅛ 89	75	[illegible]	[illegible]	7.78
Avon Fin 10⅛ 92	100	[illegible]	[illegible]	9.32
Bk Nova Scotia 12⅜ 87	100	[illegible]	[illegible]	7.80
Bank of Tokyo 12⅜ 92	100	[illegible]	[illegible]	9.14
Bank of Tokyo 13⅛ 91	100	[illegible]	[illegible]	7.98
Bank of Tokyo 13⅜ 89	100	[illegible]	[illegible]	7.92
BMW O/S Fin 10⅛ 91	50	[illegible]	[illegible]	8.64
BP Capital 11⅝ 92	150	[illegible]	[illegible]	9.00
Br Col Hydro 11⅞ 93	200	0		
Br Col Hydro 12⅜ 14	200	[illegible]	0	10.27
Br Col Hydro 12⅞ 13	250	[illegible]	0	9.69
Bristol Fin 11⅝ 92	125	[illegible]	[illegible]	9.89
Caisse Nat En 11⅝ 95	125	[illegible]	[illegible]	8.36
Canada 10⅝ 88	1000	[illegible]	[illegible]	7.20
CBS Inc 11⅝ 92	100	[illegible]	[illegible]	9.25
Centrust S & L 0 10.12bn	[illegible]	[illegible]	[illegible]	9.39
Cheesebrough 12 91	100	110	−1	9.82
Chubu Elec Pwr 13⅛ 91	50	113	0	9.89
Citicorp O/S 10⅝ 90	100	[illegible]	[illegible]	9.51
Citicorp O/S 11⅝ 90	100	[illegible]	[illegible]	10.28
Citicorp 11⅝ 92	200	[illegible]	[illegible]	9.79
Citicorp 11⅝ 97	200	108	−1	10.45
Citicorp O/S 14 94	200	0		
CNCA 11⅝ 92	125	[illegible]	[illegible]	8.16
CNCA 13⅛ 91	100	[illegible]	[illegible]	8.05
Coastfed Int 12⅞ 88	125	106	[illegible]	8.59
Coca-Cola 11⅝ 88	100	[illegible]	[illegible]	7.56
Cp Fn de Paris 13⅛ 89	100	[illegible]	[illegible]	10.83
Continental Grp 11⅞ 93	75	[illegible]	[illegible]	10.28
Creditanstalt 13⅛ 91	100	[illegible]	[illegible]	8.39
Daiichi Kangyo 12⅝ 90	100	[illegible]	[illegible]	7.98
Denmark 10⅝ 90	100	[illegible]	[illegible]	9.36
Denmark 11⅝ 92	100	[illegible]	[illegible]	8.08
Denmark 12⅝ 92	250	[illegible]	[illegible]	12.29
Denmark 13 91	100	[illegible]	[illegible]	7.92
Denmark 13 92	100	[illegible]	[illegible]	12.52
Denmark 13⅛ 91	100	[illegible]	[illegible]	8.16
Denmark 13⅛ 94	150	0		
Denmark 14 91	100	[illegible]	0	10.66
Digital Equip 11⅝ 89	150	[illegible]	0	7.68
Dutch St Mines 11⅝ 91	150	[illegible]	[illegible]	9.73
Exportfinans 11⅝ 92	100	[illegible]	[illegible]	7.81
Exportfinans 11⅝ 89	100	[illegible]	0	8.98
Elec de France 11⅜ 95	150	[illegible]	[illegible]	7.96
Elec de France 12⅝ 87	150	[illegible]	[illegible]	7.30
EEC 11 87	100	[illegible]	[illegible]	6.84
EEC 11⅝ 90	100	[illegible]	[illegible]	7.36
EEC 12 93	100	0		
Elf-Aquitaine 10⅝ 88	100	[illegible]	0	8.35
Ericsson L M 10⅝ 88	200	[illegible]	[illegible]	8.04
Euro Inv Bk [illegible]	[illegible]	[illegible]	[illegible]	7.64
Euro Inv Bk [illegible]	[illegible]	[illegible]	[illegible]	8.79
Euro Inv Bk [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EDC 9⅝ 88	[illegible]	[illegible]	[illegible]	7.67
EDC 10 88	125	[illegible]	[illegible]	7.20
EDC 10⅝ 88	100	[illegible]	[illegible]	7.04
EDC 11⅝ 88	150	[illegible]	[illegible]	7.44
EDC 11⅝ 91	100	[illegible]	[illegible]	7.61
EDC 13⅝ 87	100	[illegible]	[illegible]	6.89
Fed Dept Store 11 89	[illegible]	[illegible]	[illegible]	7.82
Finland 11⅛ 88	100	108⅛	+0⅛	7.03
Finland 12¾ 94	75	123⅜	+0½	8.22
Finnish Export 12¾ 87	75	106⅝	+0⅛	7.44
Firstfed Mich 1 13⅜ 89	125	110	−1	9.28
Florida Fed 12⅞ 88	100	106	0	9.84
FNMA 11.5 91	300	112⅝	0	8.48
Gen Elec Cred 0 96	500	44	−0⅛	8.54
Gen Elec Cred 9⅜ 91	100	104⅜	−0⅛	8.55
Gen Elec Cred 10⅜ 90	200	106⅛	−0⅛	9.54
Gen Elec Cred 11 91	200	106⅛	−0⅛	9.24
Gen Elec Cred 11½ 87	200	105⅛	+0⅛	10.74
Gen Elec Cred 12 94	200	108⅝	0	10.38
Gen Foods Cap 11½ 90	75	108⅛	−1⅛	8.80
General Mills 8 12 91	100	112½	0	8.97
GMAC 10 88	200	104	0	7.30
Gen Motors Acc 10⅜ 90	200	104⅞	+0⅛	8.81
Gen Motors Acc 11⅜ 90	100	107⅞	+0⅛	9.03
GMAC O/S Fin 15⅜ 97	100	102⅞	−2⅜	11.23
GTE Finance 12 96	75	103½	+0⅛	11.37
Gulf Oil 10⅜ 94	100	102⅞	−1⅛	9.71
GZB 14 91	100	118⅛	−2½	9.27
Holl Air Fin 12⅜ 91	100	107⅛	+0⅛	10.23
Household Fin 11⅜ 92	100	110⅛	+1	9.34
IBM 9⅜ 88	200	103½	+0⅛	9.15
IBM (WTC) 10⅜ 89	300	105⅛	+0⅛	9.65
IBM Credit 11 89	100	105⅛	0	9.06
IC Industries 8⅜ 87	35	99⅜	0	9.02
IC Industries 12 90	75	108⅛	−0⅛	9.31
Inco 9 92	100	99½	0	9.09
Ind Bk Japan 10⅜ 92	100	109⅝	−1⅛	8.48
Ind Bk Japan 10⅞ 95	100	112⅝	−3⅜	8.79
Ind Bk Japan 11½ 89	125	107⅛	+0⅛	8.10
Ind Bk Japan 11⅞ 91	100	0		
Int-Amer Dev 12⅜ 91	150	118⅞	−0½	8.22
Int-Amer Dev 11⅜ 94	200	120⅛	+1⅛	8.35
Int Paper 12 91	75	106½	+0⅛	10.17
Int Stand Elec 0 97	112	35⅛	−0⅛	10.24
Int Stand Elec 12 96	75	106⅜	−2⅝	10.84
ITT 11½ 89	125	106⅛	−2½	9.07
ITT Credit Corp 10⅜ 90	75	106⅛	+0⅛	8.58
Japan Airlines 12½ 94	70	120⅛	−0⅞	8.81
Japan-Dev Bk 10⅝ 92	50	107⅞	0	8.79
Kellogg Co 10⅞ 90	100	107⅝	+0⅛	8.26
Kellogg Co 11⅛ 92	100	109⅞	−2⅛	8.89
Kimberley-Clark 12 94	100	119⅝	−0⅛	8.61
Kyowa Fin HK 12⅞ 90	100	112	−3⅜	9.04
Long Term Cred 10⅝ 90	100	109⅛	+0⅛	7.83
Long Term Cred 11 90	100	109½	+0⅛	7.91
Long Term Cred 11⅞ 89	100	109⅝	0	7.76
Long Term Credit 12 93	100	119⅞	0	8.28
Macy R H 11⅜ 91	100	105⅛	+0⅛	10.07
Macy R H 11⅜ 95	100	0		
Marubeni 11⅜ 91	100	108	0	9.41
McDonalds Fin 11⅜ 94	75	108⅛	−0⅛	9.98
Merrill Lynch 12⅜ 89	100	106⅞	−0⅝	10.34
Michelin 10 94	125	100⅛	+1½	9.85
Mitsubishi Cp 10½ 92	100	108⅛	−0⅛	8.54
Mitsubishi Cp 10⅝ 95	200	110⅛	−0½	8.78
Mitsubishi Cp 12½ 91	100	117⅛	−0⅛	8.02
Mitsubishi Est 10⅝ 92	50	106⅛	−0⅛	8.90
Mitsubishi Est 11⅜ 88	50	106⅛	+0⅛	7.71
Mitsui Fin Asia 12⅛ 92	100	112½	0	9.16
Mitsui Tst Fin 12 91	100	113⅛	−1	8.28
Mobil Corp 10⅜ 90	200	106⅛	+6⅛	8.26
Montreal City 12½ 91	70	113⅛	+0⅛	8.82
Mgn Guaranty 12⅜ 89	150	110⅛	+0⅛	7.86
Morgan J P 11⅛ 92	100	108½	+0½	9.24
Mount Isa Fin 13⅜ 87	100	105½	+0⅛	8.09
Ned Gasunie 11⅛ 90	75	110	−1⅛	8.36
Ned Gasunie 11⅛ 91	75	106⅝	+0⅛	9.41
N Eng Lt Mtg 11⅜ 95	149	113⅛	−0⅛	9.35
Newfoundland 13 91	75	114⅛	+0⅞	8.04
Nippon Crd Bk 13⅞ 89	100	115⅛	+0⅛	7.94
Nippon Cred Bk 9⅛ 93	50	98⅞	+0⅛	9.89
Nippon Tel Tel 11⅜ 90	100	109⅛	−0⅛	8.16
Nippon Tel Tel 12⅜ 91	100	120⅛	+0½	7.83
Nissho Iwai 10⅜ 92	100	108⅛	0	8.84
Nova Scotia 11⅜ 91	100	106⅛	+0⅛	9.96
Nova Scotia 11⅜ 98	100	112⅛	−0⅛	9.87
Oester Post 12⅜ 89	75	109⅞	+0⅛	8.21
Ontario Hydro 11⅜ 94	200	118⅛	+0⅛	8.19
Ontario Hydro 11⅜ 90	200	113⅛	+0⅛	7.79
Ontario 12½ 94	250	120⅞	0	8.92
Orient Fin 11 92	50	109⅛	0	8.73
Pacific Gas & El 12 00	75	110⅛	−1	10.46
Penney J C 11⅞ 90	100	105⅛	+1⅛	10.12
Penney J C 12⅜ 91	100	113⅛	+2⅛	9.32
Phillips Petrol 14 89	200	102⅞	+1⅛	12.67
Postipankki 11⅛ 90	75	107⅛	−0⅛	8.72
Post-Och Kred 13½ 87	50	106⅝	+1⅛	7.07
Privatbanken 12½ 95	100	119⅛	0	9.09
Prudential Ins 12⅛ 87	150	105½	0	7.18
Pru Rlty Secs 0 99	365	34⅛	−0½	8.83
Pru Rlty Secs 11⅞ 92	386	107⅞	+0⅛	9.92
Pru Rlty Secs 12⅛ 95	546	116½	+0⅛	9.22
Quebec Prov 12⅜ 94	150	113½	−0⅞	9.63
Queensland Gvt 11⅜ 89	100	108⅞	+0⅛	7.86
RBC 11⅛ 90	100	108	+0⅛	8.49
Rural B Aust 12 91	50	110⅛	+1⅛	9.11
Sanwa Bank 11⅞ 92	150	113½	−0⅛	8.75
Sanwa Intl 11½ 92	100	114½	+0⅛	8.32
Saskatchewan 10⅜ 92	100	112⅛	+0⅛	7.93
Saskatchewan 10⅜ 90	125	108⅛	+0⅛	7.71
Saskatchewan 11⅞ 89	100	112⅛	+0⅛	7.62
Saskatchewan 15 92	150	130⅝	+0½	8.38
Saskatchewan 16 89	125	119⅛	+0⅛	7.76
Scot Intl Fin 10⅜ 90	50	106⅛	0	8.74
Sears O/S Fin 0 98	500	35⅛	0	8.93
Sears Roebuck 10½ 91	150	106⅛	+0½	8.79
Sears Roebuck 11⅜ 91	150	112⅞	−0⅛	8.11
Sec Pacific 12 92	100	0		
Shearson/Amex 12⅜ 94	100	115⅞	−0⅛	9.25
Shell (Canada) 14⅜ 92	125	113⅜	−1⅛	11.07
Signal Comps 11⅜ 92	125	109⅝	+2⅛	9.55
Standard Oil 10½ 89	150	103⅞	+0⅛	8.95
Statoil 12 88	100	107⅝	0	7.17
Sumitomo F A 10⅜ 90	100	109⅛	0	8.05
Sumitomo Fin 11⅜ 92	150	115⅛	+0⅛	8.29
Sumitomo Fin 12⅜ 91	150	117⅞	0	8.17
Sumitomo Trust 12½ 92	100	116⅝	0	8.67
Sweden 11½ 88	200	111⅜	+0⅛	7.50
Sweden 12⅜ 89	200	111⅞	+0⅛	7.61
Swedish Export 10⅜ 88	100	0		
Swedish Export 11½ 89	100	109⅛	−0⅛	7.38
Swedish Export 12⅜ 89	100	110⅛	−0⅛	8.67
Taiyo Kobe 11⅞ 90	100	110⅜	0	8.56
Taiyo Kobe 12 90	100	0		
Tenneco Corp 11½ 89	150	105½	+1⅛	9.09
Texaco Capital 10½ 90	200	98⅛	−0⅞	10.95
Texaco Capital 11⅜ 95	250	100⅛	+0⅛	10.95
Texaco Capital 13½ 89	200	105	−0⅛	11.46
Texas Instru 11⅞ 91	150	108⅞	+1⅞	9.42
Tokai Asia 12⅜ 91	100	114⅛	−0⅛	9.34
Tokyo Elec Pr 13⅜ 89	100	113⅛	0	8.29
Tokyo Metrop 12⅞ 94	50	120⅞	+3⅞	9.10
Toray Inds 11⅜ 92	50	109⅛	0	8.84
Toronto-Dom 12⅜ 89	50	109⅛	+0⅛	8.69
UBS 12⅜ 91	100	108	−2½	10.61
Utd Tech 11⅜ 92	150	111½	+0½	3.53
Veba 8 93	70	225½	−2⅜	0.00
West LB 11⅞ 90	100	111⅛	0	8.56
Westpac 12⅜ 92	100	116⅝	0	8.70
Weyerhaeuser 11½ 90	60	106	−0⅛	9.99
World Bank 11 92	300	114⅝	+0½	7.69
World Bank 11⅜ 90	200	113⅛	+0⅛	7.50
World Bank 11⅜ 89	200	108⅝	+0⅛	7.42
World Bank 12 93	200	121⅜	+0⅞	7.96
World Bank 12⅜ 94	150	0		
World Bank 12⅝ 94	200	0		
Yasuda Trust 12⅜ 89	100	111⅜	+0⅛	7.63

FLOATING RATE NOTES	Issued	Price	Chg. on week	C.cpn
African Dev Bk ⅛ 96	100			7⅛
Allied Irish ⅛ Perp	100	97	0	7 5/16
Arab Bank Corp ⅛ 96	100	99	+0⅛	7⅛
Banco di Roma 3/16 89	150	100⅛	+0⅛	7 3/16
Bnc di Roma ⅛ 92 CU	75	100	0	10 1/16
Bankamerica O/S ⅛ 96	400	98⅞	+0⅛	7⅛
Bankers Tr NY ⅛ 94	200	100⅛	0	7⅛
Bank of Greece ⅛ 94	150	97⅝	0	6 11/16
Bank Montreal ⅛ 94 £	100	100¼	0	10
Bqe Nat Paris ⅛ 88	400	101⅛	−0⅛	8⅛
Bqe Nat Paris ⅛ 95	400	102⅛	0	8⅛
Barclays O/S ⅛ Perp	600	100⅛	+0⅛	7⅛
BBL ⅛ 99	100	100	−0½	6 13/16
BFCE ⅛ 97	400	99	−0½	7⅛
BFCE ⅛ 99	600	100⅛	0	7⅛
Belgium 1/16 04	400	100⅛	+0⅛	7⅛
Belgium 8 0.03 2011	250	100⅛	0	5
CCCE ⅛ 05	200	100⅛	0	7 5/16
CEPME ⅛ 96 £	100	100⅛	0	10
Chase Manhattan ⅛ 09	400	100	0	7 5/16
Chemical NY 1/16 99	300	99⅝	0	7⅛
Citicorp O/S ⅛ 91 £	100	99⅝	0	10⅝
Citicorp O/S ⅛ 98	250			6 15/16
Citicorp Pan Pan ⅛ 97	250	99⅞	0	7⅛
Commerzbank ⅛ 89	150	100⅛	0	7 3/16
Creditanstalt 1/16 96	150	100⅛	0	8
Credit Foncier 97	350	100	0	7⅛
Credit Foncier ⅛ 00 £	100	100⅛	0	10⅛
Credit Lyonnais 1/16 96	300	101	0	7⅛
Credit Lyonnais ⅛ 99	250	100⅛	+0⅛	7 5/16
Credit Lyonnais 1/16 00	300	100⅝	0	8 1/16
Credit National ⅛ 95 £	100	100⅛	0	9 15/16
Dai-Ichi Kangyo ⅛ 96	150	100⅛	+0⅛	6⅞
Den Danske Bk 1/16 89	30	100	0	7 5/16
Denmark 1/16 95	250	110⅛	0	10
Denmark 1/16 04	500	100⅞	0	8⅛
Eldorado Nuke 89	100	100⅛	−0⅛	8
Elec de France ⅛ 99	400	102⅛	−0⅛	8 1/16
ENEL ⅛ 93 £	100	100⅛	0	10 1/16
Exterior Int ⅛ 96	125	100⅛	0	7⅛
Ferro del Stat ⅛ 88	100	100⅛	0	7⅛
Ferro del Stat 97	420	100	−0⅛	7⅛
Finnpap ⅛ 95	100	100⅛	0	8⅛
First Chicago ⅛ 94	100	99⅛	−0⅛	7 5/16
First Chicago 1/16 97	200	99⅛	−0⅛	7⅛
Ford Motor Cr ⅛ 91	200	100	0	7 5/16
GW O/S Fin ⅛ 94	100	99⅝	0	7⅝
Grindlays ⅛ 94	100	100⅛	0	8⅛
Interfirst Tex ⅛ 89	100	86½	0	7
Ireland ⅛ 88	50	100	0	8½
Ireland ⅛ 93 £	50	100⅛	0	10 7/16
Ireland 1/16 94 £	300	100⅛	0	8 5/16
Ireland ⅛ 96 £	100	100⅛	0	9⅝
Ireland ⅛ 97	300	100⅛	+0⅛	8⅛
Ireland 1/16 99	300	100⅛	0	7⅛
Italy ⅛ 94	1bn	100	0	6⅞
Italy 1/16 05	500	100⅛	0	7⅛
Kleinwort Benson ⅛ 96	100			7 11/16
Korea Dev Bk ⅛ 00	100	99⅛	+0⅛	8½
Lincoln S & L ⅛ 99	100	100⅛	+0⅛	7 5/16
Lloyds Euro ⅛ 04	250	100⅛	+0⅛	6⅛
Malaysia ⅛ 93	500	100	+0⅛	8⅛
Malaysia ⅛ 94	600	98½	+0⅛	7⅞
Man Hanover 1/16 97	200	98⅞	0	7⅛
Marine Midland ⅛ 94	125	100⅛	0	7 3/16
Marine Midland ⅛ 96	125	100	0	7⅛
Marine Midland 1/16 09	150	100	0	7 5/16
Mellon Bank ⅛ 96	250	100	0	7½
Midland Intl ⅛ 99	200	100⅛	0	7 13/16
Mitsui Fin ⅛ 96	100	100⅛	0	7 13/16
Morgan Grenfell ⅛ 94	50	100⅛	−0⅛	8 5/16
Mtg Intermed ⅛ 10 £	50	100⅛	0	10⅞
Nat Bank Canada ⅛ 91	50	100⅛	0	8 7/16
NatWest 1/16 05	400	100⅛	0	6⅝
NatWest Fin ⅛ Perp	300	100⅞	+0⅛	7 5/16
Nestle Oy ⅛ 94	100	100⅛	0	8 5/16
New Zealand 2001	250	100½	+0⅛	5
NZ Steel Corp ⅛ 92	225	100⅛	0	7⅛
Offshore Min ⅛ 91	150	100⅛	0	7½
Oster Land Bank ⅛ 99	100	100⅛	0	6 15/16
Portugal ⅛ 92	100	100	0	7 5/16
Renfe ⅛ 91	100	100⅛	+0⅛	7⅛
Sanwa Intl Fin ⅛ 92	150	100⅛	0	8 5/16
Sanwa Intl Fin ⅛ 04	150			8⅛
Security Pac 1/16 97	250	98½	0	7 5/16
Shawmut Corp ⅛ 97	50	99⅛	0	7 5/16
SNCF ⅛ 93 £	75	100⅛	0	10⅛
Soc Generale 1/16 97	400	100⅛	+0⅛	7 5/16
Soc Generale ⅛ 94	250	100⅛	+0⅛	7⅛
Spain ⅛ 99	500	100⅛	0	8 5/16
Spain ⅛ 97	250	100⅛	−0⅛	8 5/16
Standard Chart ⅛ 94	200	100⅛	0	8⅛
Sumitomo Trust ⅛ 94	100	100⅛	0	8⅞
Sweden ⅛ 99	500	100⅛	0	8⅛
Sweden 90	700	100⅛	0	7⅞
Swedish Ex Cred ⅛ 92	125	100⅛	0	10
Thailand ⅛ 05	60	98½	0	7⅝
Tokai Asia ⅛ 99	150	100⅛	+0⅛	7 5/16
Toyo Trust Asia ⅛ 99	100	100⅛	+0⅛	7 5/16
UBAF ⅛ 90	65	99⅛	0	8⅝
Union Bk Finland ⅛ 34	100			7 5/16
Union Bank-Norw ⅛ 89	50	99	0	8 7/16
United Kingdom 92	2.5bn	100⅛	0	7⅛
Wells Fargo 1/16 94	150	99⅝	0	7⅛
Wells Fargo 1/16 96	50	99⅞	0	7 5/16
Yorkshire Int ⅛ 94 £	75	100	0	10

CONVERTIBLE BONDS	Issued	Price	Chg. on week	Prem.
Ajinomoto 3 99	120	263⅞	+3⅞	1.03
Best Denki 5⅞ 97	15	293⅛	+3⅛	−100.00
Canon 7 97	50	256⅜	+2⅜	−0.12
Daiwa Secs 5½ 98	60	532	+16	−0.20
Elders 11⅛ 94	160	0		
Elektrowatt 5 98	51	144½	+5⅛	−4.77
Fuji Bank 2⅞ 00	100	137⅛	−0⅛	4.52
Fujitsu 3 99	180	118⅝	−0⅞	−100.00
Intec Inc 3 99	50	204⅛	+23⅛	−100.00
Kyowa Hakko 6⅜ 97	40	389⅜	+17⅜	−0.80
LASMO 9⅜ 99	44	88⅛	+1⅛	143.25
Moet-Hennessy 7 99	50	0		
Murata Mfg 3½ 00	100	144⅛	−4⅛	21.70
Nippon Oil 3⅜ 99	50	183⅛	+19⅜	9.90
Ono Pharm 3⅜ 98	60	226	+31	−0.20
Soc Gen Surv 4½ 94	50	0		
Sumitomo Corp 2⅞ 99	70	254½	+14½	−100.00
Texaco Capital 11⅛ 94	1bn	104½	+1	69.03
Texaco Capital 11⅜ 94	500	104⅞	+0⅛	69.03
Tamura Juntendo 5⅞ 96	30	177⅜	+23⅛	−3.71
Yamaichi Sec 3⅛ 95	20	0		

YEN STRAIGHTS	Issued	Price	Chg. on week	Yield
Asian Dev Bk 7⅞ 94	15	108½	+1⅛	5.95
Avon Products 6⅜ 91	25	102⅛	+0½	6.27
Denmark 6⅜ 92	20	104⅛	+0⅛	5.84
Dow Chemical 7 94	50	102⅞	+0⅛	6.54
EDF 6⅞ 95	20	107	+0⅛	5.81
Eurofima 7⅛ 94	10	104½	+0⅛	6.60
Eurofima 6⅜ 92	10	102⅝	+0⅛	6.02
FNMA 6⅞ 92	50	104⅛	+0⅛	5.96
GMAC 6½ 90	25	102⅛	+0⅛	5.66
Intel 6⅜ 92	12.5	99⅞	+0⅛	6.64
Int-Amer Dev 7⅜ 93	15	104⅝	+0⅞	7.04
ITT 6⅜ 92	20	102⅞	+0½	6.12
McDonald Corp 6½ 92	25	103⅞	+0⅞	5.66
New Zealand 7⅜ 90	15	106⅛	0	5.34
New Zealand 7⅜ 89	15	106⅞	+0⅛	5.22
Pacific Gas & El 7 94	20	102⅛	+0⅛	6.55
Penney J C 6⅜ 92	25	102⅞	+0½	6.12
Procter 6⅜ 92	25	104⅝	+0⅛	5.74
Sallie Mae 6⅜ 92	25	103	0	5.96
TRW 7 94	15	102⅛	+0⅛	6.58
Utd Technology 6⅝ 92	25	102⅞	+0⅛	5.99
World Bank 7 94	20	108⅛	+0⅛	5.60
World Bank 7⅜ 93	20	111	+0⅛	5.79
World Bank 8 93	20	111⅛	−0⅛	5.81

LUXFR STRAIGHTS	Issued	Price	Chg. on week	Yield
ASEA 9⅜ 89	600	0		
Eurofima 10 94	600	105½	+0⅛	9.04
E Coal & Steel 10½ 94	1bn	105⅛	−0⅛	9.51
Euro Invest Bk 10½ 94	1bn	106	0	9.00
World Bank 10⅜ 89	1bn	105⅛	+0⅛	8.21

GUILDER STRAIGHTS	Issued	Price	Chg. on week	Yield
ABN 8 89	200	104⅛	+0⅛	6.06
ABN 7⅜ 89	150	104⅞	−0⅛	6.07
Amro Bank 7⅜ 89	150	103⅛	+0⅛	6.19
Amro Bank 8 89	200	104⅛	−0⅛	6.07
Bk Mees & Hope 8⅜ 89	100	104⅛	+0⅛	6.28
Beatrice Foods 8⅜ 89	100	104⅛	−0⅛	6.47
C C Rabo 8 89	150	104⅛	−0⅛	5.02
Denmark 8½ 89	100	108⅛	−0⅛	6.35
Int Stand Elec 8½ 89	100	104⅛	+0⅛	6.4[illegible]
New Zealand 8⅜ 89	100	105½	−0½	6.20

CANADIAN DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
Amex 12⅜ 91	50	105⅞	0	10.73
Aust Resources 11⅜ 92	50	108⅛	−1⅛	[illegible]
Bank of Tokyo 10⅞ 92	75	101½	−0⅛	10.46
Bqe l'Indosuez 14 91	75	113	+0⅛	10.55
Br Col Munic 12⅜ 91	100	109⅛	+0⅛	[illegible]
Br Col Munic 13½ 91	100	114	0	[illegible]
Br Col Tele 12⅜ 89	70	105⅛	−0⅛	[illegible]
Farm Cred Corp 12⅜ 90	75	108⅛	0	9.72
Kredietbank 12 92	75	108⅛	−0⅛	9.85
Long Term Cred 11⅜ 90	75	106	−0½	9.81
Montreal City 12⅜ 91	50	109½	+0⅞	9.68
New Brunswick 12 95	75	110⅛	−0⅛	10.11
Nova Scotia 11⅜ 95	100	109⅛	+0⅛	9.92
Quebec Hydro 14 91	75	107½	−0⅛	11.92

ECU STRAIGHTS	Issued	Price	Chg. on week	Yield
ABN 9½ 92	100	107⅛	−0⅛	7.84
Australian & NZ 10⅜ 91	50	104⅞	−1⅛	9.40
Austria 10⅜ 93	100	113	−0⅛	7.97
BFCE 9⅜ 92	100	109⅞	−0⅛	7.50
Cred National 10⅜ 94	50	115⅛	−0⅛	7.83
Cred National 11⅜ 91	50	107⅛	+0⅛	9.38
Denmark 10⅜ 91	75	107⅛	−1⅛	8.79
Ebco Intl 10⅞ 89	55	104½	0	8.82
EEC 11 93	50	100⅞	−0⅛	10.79
EEC 11⅛ 91	50	108⅝		9.01
EEC 11⅜ 93	70	100⅞	−0⅛	11.05
Euro Coal & Steel 8 94	60	123	0	8.88
Euro Invest Bk 9⅛ 95	200	108⅛	−0⅛	7.88
Euro Invest Bk 10⅞ 94	130	112⅜	0	7.86
Euro Invest Bk 10⅜ 89	50	105⅛	−1⅛	8.23
Euro Invest Bk 10⅜ 94	100	112⅛	−0⅛	8.40
Euro Invest Bk 11⅛ 92	75	110⅞	−0⅛	8.71
Euro Invest Bk 11⅜ 93	50	107⅛	−0⅞	9.70
Euro Invest Bk 11⅜ 96	50	118	−0⅛	8.42
Gen Finance 11 90	70	106⅛	−2	9.13
Giro Vienna 10½ 93	60	112½	−0⅛	8.17
GTE Finance 10⅞ 92	50	107⅛	−1⅛	9.15
Ireland 10⅜ 95	50	108⅛	−1	9.14
Italian Govt 10½ 92	600	112⅞	−0⅛	7.84
Italian Treas 11½ 90	60	112⅜	+1	7.96
Italy 9⅜ 89	200	104⅛	−0⅛	7.58
Kredietbank L 9⅜ 92	75	107⅛	−0½	7.63
Megal Finance 11⅜ 94	100	0		
Nippon Cred Bk 11 91	50	107⅛	−1⅛	9.10
Post Och Kred 10⅞ 92	50	102⅛	0	10.31
Royal Bk Can 10½ 89	85	103⅛	−0⅛	8.91
SNCI 10⅞ 94	60	112½	−4	8.61
Swedish Export 11 89	57	104⅜	0	9.04
West LB 10⅞ 91	50	103⅛	+0⅛	9.82
World Bank 10⅜ 88	100	105⅛	−1⅛	9.13

AUSTRALIAN DOLLAR STRAIGHTS	Issued	Price	Chg. on week	Yield
Nat Aust Bk 12½ 89	40	98⅛	+1	13.23
PIBA 12⅜ 89	50	96	−1	14.17
State Bk NSW 12⅜ 89	40	97⅛	−1½	13.45
Woolworths 14⅜ 88	25	0		

STERLING STRAIGHTS	Issued	Price	Chg. on week	Yield
BAT Intl 10⅜ 91	100	103½	+0⅛	9.89
Denmark 10⅜ 89	75	103⅞	+0½	8.06
EEC 11⅜ 94	50	110⅛	+0⅞	9.40
Europarat 11⅜ 92	50	108⅛	+1⅞	9.45
Euro Invest Bk 10⅜ 92	50	107	+0⅛	9.08
Finland 11⅞ 88	50	104⅝	+1⅛	9.40
Grand Met Fin 10⅞ 90	50	104	+0⅛	9.65
Int-Amer Dev 11⅛ 91	60	107	+0½	9.45
Int Stand Elec 11⅜ 89	50	104⅛	+2⅛	9.17
Inv in Indust 11½ 91	50	105	0	10.22
Ireland 11⅜ 94	50	107⅛	−0⅛	9.96
New Zealand 10⅜ 89	100	103	+0⅛	9.33
SNCF 11⅛ 94	60	109½	+0⅛	9.51
World Bk 10⅜ 89	100	104	+0⅛	8.91
World Bk 10⅜ 89	50	104⅛	0	9.05
World Bk 11 94	50	109⅛	+0⅛	9.37

EQUITY WARRANTS	Expiry date	Price	Chg. on week	Prem.
Ciba-Geigy Int £	1/11/93	425	0	7.96
Credit Suisse	31/5/88	96½	0	−92.37
IC Industries	15/6/88	0		
ICI Finance (Neth)	1/6/90	825	0	−1.52
Japan Syn Rubber	24/3/88	0		
Minebea	15/3/90	33	0	7.49
Philips Gloeilampen	15/7/86	17⅛	0	83.52
Pru O/S Funding	15/12/88	0		
Renown Inc	24/1/89	0		
SBC Finance	17/9/90	78½	0	−81.50
Seagram Co	15/9/88	26½	+0½	−15.28
Swiss Bk Cpn	20/12/88	121½	0	6.79
Union Bk Switz A	30/11/89	28⅛	0	

BOND WARRANTS	Expiry date	Price	Chg. on week	Ex. yield
Aegon Ins 11⅛ 91	15/2/88	96⅛	0	9.71
Coca-Cola 11⅛ 91	28/11/88	120	0	8.49
Dai-Ichi K 6½ 96 B	1/1/96	12½	+1	5.32
Du Pont 13⅛ 89	25/8/86	125	+5	8.52
Eksportfins 13⅜ 89	15/9/87	130⅛	0	8.40
Gen Elec 12⅜ 91	7/8/87	0		
Ind Bk Jpn 12⅞ 91	5/10/89	160½	0	8.90
ITT Finance Cpn	15/11/89	0		
McDnlds 11⅜ 94	5/1/89	0		
Oester Lnbk 13½ 89	9/8/87	0		
Texaco Cap 12⅞ 92	1/8/87	75	0	−3.76
Tmto Dom 12½ 91	5/4/88	0		

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions.

FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon.

CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

Closing prices on July 4.

UK GILTS

All eyes turn to the money supply

LAST WEEK's bounce in gilt prices came as a welcome relief after a disappointing period. What explains the market's recent lethargy? Is it something to do with distortions to M3? It probably has more to do with diversions from the A3. First there was the exodus to Epsom, then the cut across country to Ascot, and last week the trek to Wimbledon.

Tomorrow's money supply data could help to liven things up. Sterling M3 may show growth of ¾ per cent on the month, which would normally be a reasonable performance, though not in the context of the last three figures. Even a negative number could be interpreted as merely partial and overdue adjustment for previous rapid expansion. If, however, M3 should show growth in excess of 1.5 per cent, then many a stale bull will feel queasy.

Yet the rational interpretation of tomorrow's figures will pay scant regard to M3. A much fairer picture is given by PSL2, now redefined to include longer term deposits and term shares, so that it is equivalent to what had been unofficially dubbed PSL3. At the last count it had grown by 14.7 per cent, much less than M3, although it too was showing some signs of acceleration, partly accounted for by under-funding. June's figure should be roughly ¾ per cent, which would bring the year-on-year increase down to about 13½ per cent.

Even so, although the gilt market is strongly under-pinned at these levels, there is a sound reason for caution—the clash between interest rate policy and the obstinate growth of average earnings. The growth of the monetary aggregates is merely a sideshow. Inflation will fall very low this year—probably to 2 per cent—but entirely due to external factors.

Unless earnings growth subsides, this poses two related problems for the market. First, inflation will rise again next year, which is bad news for the gilt market directly, and bad news indirectly through its effect on the Government's electoral chances.

Secondly, the cost uncompetitiveness of British industry will be sustained or even increased. With the balance of payments already likely to be under pressure from lower oil prices and the effect of a consumer boom, not to mention political worries, the exchange rate looks vulnerable.

So hopes of lower interest rates in the UK must rest on the prospects for reductions abroad. With the Japanese elections now out of the way, the West German money supply less worrying, and the US economy still looking weak, another international round of interest rate cuts looks likely, once someone can be persuaded to start the ball rolling.

It is unlikely to be our Nigel! Quite apart from the wages problem, the UK authorities have two further reasons for dragging their feet over interest rate reductions. The General Election may well be in the autumn of 1987, at a time when inflation could be heading upwards. It would be helpful to have the benefit of mortgage rate reductions within the annual inflation figure when the country goes to the polls.

If the Government acts to encourage cuts in mortgage rates now which could otherwise be enjoyed later in the year, it is effectively wasting a trick. And bearing in mind the importance of getting the privatisation of British Gas away successfully in the autumn, base rate cuts now may amount to trumping one's partner's ace.

Indeed, if we do see another round of international interest rate reductions it is possible that the UK may sit this one out. Even if the UK does take part, what is in it for gilts? A minor rally, perhaps. The market still needs to close the gap between short rates and long yields. Another base rate cut would bring the crossover at 9½ per cent. The market would be not so much off to the races, as off on its holidays.

Roger Bootle
Lloyds Merchant Bank

This announcement appears as a matter of record only.

New issue — 18th June, 1986

BCE Development Corporation

Cdn. $300,349,998
66,744,444 Units

each Unit consisting of one Common Share (without par value) and one-half $5.50 Common Share Purchase Warrant

Issue Price Cdn.$4.50 per Unit

International Offering of 4,460,000 Units

Union Bank of Switzerland (Securities) Limited

Crédit Commercial de France	Dominion Securities Pitfield Limited
Dresdner Bank Aktiengesellschaft	Kleinwort, Benson Limited
Leu Securities Limited	McLeod Young Weir International Limited
Merrill Lynch Capital Markets	Samuel Montagu & Co. Limited
Nomura International Limited	Richardson Greenshields of Canada (U.K.) Limited
Salomon Brothers International Limited	Toronto Dominion International Limited

Wood Gundy Inc.

This announcement appears as a matter of record only. These Notes have not been qualified for sale under the securities laws of Canada and the United States of America.

New issue — 10th June, 1986

U.S. $55,000,000

The New Brunswick Electric Power Commission

7¾ per cent. Notes due 1994

Unconditionally guaranteed as to principal and interest by

Province of New Brunswick
(Canada)

Issue Price 100¼ per cent.

Union Bank of Switzerland (Securities) Limited

Bank of Tokyo International Limited	Banque Bruxelles Lambert S.A.
CIBC Limited	Crédit Commercial de France
Crédit Lyonnais	Deutsche Bank Capital Markets Limited
Dominion Securities Pitfield Limited	Morgan Guaranty Ltd
The Nikko Securities Co., (Europe) Ltd.	Orion Royal Bank Limited
S.G. Warburg & Co. Ltd.	Wood Gundy Inc.
Julius Baer International Limited	Banca del Gottardo
The Bank of Nova Scotia Group	Leu Securities Limited
Nesbitt, Thomson Limited	Richardson Greenshields of Canada (U.K.) Limited
	Swiss Volksbank

This announcement appears as a matter of record only. These Debentures have not been qualified for sale under the securities laws of Canada and the United States of America.

New issue — 17th June, 1986

Can. $50,000,000

Xerox Canada Finance Inc.

(Incorporated with limited liability in Canada)

9¼ per cent. Debentures due 1991

Issue Price 100½ per cent.

Union Bank of Switzerland (Securities) Limited

Algemene Bank Nederland N.V.	The Bank of Nova Scotia
Banque Bruxelles Lambert S.A.	Banque Internationale à Luxembourg S.A.
Citicorp Investment Bank Limited	Dominion Securities Pitfield Limited
Dresdner Bank Aktiengesellschaft	Genossenschaftliche Zentralbank AG–Vienna
Kredietbank S.A. Luxembourgeoise	Leu Securities Limited
The Nikko Securities Co., (Europe) Ltd.	Nomura International Limited
Orion Royal Bank Limited	Société Générale

Wood Gundy Inc.

This announcement appears as a matter of record only.

New issue — 4th June, 1986

winterthur insurance

50,000 Bearer Participation Certificates of Sfr. 100 par value each of

"Winterthur" Swiss Insurance Company

Offer Price Sfr. 6,218 per BPC

Union Bank of Switzerland (Securities) Limited

Credit Suisse First Boston Limited	Swiss Bank Corporation International Limited
Julius Baer International Limited	Banque Bruxelles Lambert S.A.
Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft	Bayerische Vereinsbank Aktiengesellschaft
Crédit Commercial de France	Daiwa Europe Limited
Deutsche Bank Capital Markets Limited	Dresdner Bank Aktiengesellschaft
EBC Amro Bank Limited	Handelsbank N.W. (Overseas) Limited
Leu Securities Limited	Merck, Finck & Co.
Nomura International Limited	Pictet International Ltd.
Rahn and Bodmer	J. Henry Schroder Wagg & Co. Limited
Swiss Volksbank	Zürcher Kantonalbank

This announcement appears as a matter of record only. These Debentures have not been qualified for sale under the securities laws of Canada and the United States of America.

New issue 14th May, 1986

U.S. $100,000,000

Canadian Pacific Limited

7½ per cent. Debentures due 1996

Issue Price 100 per cent.

Union Bank of Switzerland (Securities) Limited — **Wood Gundy Inc.**

Algemene Bank Nederland N.V. — **Banque Bruxelles Lambert S.A.**

Commerzbank Aktiengesellschaft — **County Bank Limited**

Crédit Commercial de France — **IBJ International Limited**

Merrill Lynch Capital Markets — **The Nikko Securities Co., (Europe) Ltd.**

Nomura International Limited — **Orion Royal Bank Limited**

Salomon Brothers International Limited — **Société Générale**

Westdeutsche Landesbank Girozentrale

This announcement appears as a matter of record only.

New issue 30th June, 1986

U.S. $100,000,000

European Coal and Steel Community

7¾ per cent. Notes due 1991

Issue Price 100⅜ per cent.

Union Bank of Switzerland (Securities) Limited — **Banca Commerciale Italiana**

Dresdner Bank Aktiengesellschaft — **Orion Royal Bank Limited**

Banque Bruxelles Lambert S.A. — **Banque Nationale de Paris**

Banque Paribas Capital Markets Limited — **Baring Brothers & Co., Limited**

Bayerische Vereinsbank Aktiengesellschaft — **Chase Investment Bank**

Crédit Lyonnais — **Goldman Sachs International Corp.**

Kleinwort, Benson Limited — **Leu Securities Limited**

Nomura International Limited — **Swiss Volksbank**

This announcement appears as a matter of record only.

New issue 26th June, 1986

U.S. $100,000,000

Province of Nova Scotia

8 per cent. Debentures due 1989

Issue Price 101 per cent.

Union Bank of Switzerland (Securities) Limited

Banque Paribas Capital Markets Limited — **Credit Suisse First Boston Limited**

Dominion Securities Pitfield Limited — **Kredietbank International Group**

Leu Securities Limited — **McLeod Young Weir International Limited**

Merrill Lynch Capital Markets — **Morgan Guaranty Ltd**

Orion Royal Bank Limited — **Richardson Greenshields of Canada (U.K.) Limited**

S.G. Warburg & Co. Ltd. — **Westdeutsche Landesbank Girozentrale**

Wood Gundy Inc.

This announcement appears as a matter of record only.

New issue 2nd June, 1986

The Kingdom of Denmark

U.S. $100,000,000

7¼ per cent. Notes due 1993

and

100,000 Income Warrants
to subscribe for

U.S. $100,000,000

8¼ per cent. Notes due 1993

Issue Price of the 7¼ per cent. Notes due 1993: 100½ per cent.
Issue Price of the Income Warrants due 1993: U.S.$72.50

Union Bank of Switzerland (Securities) Limited — **Banque Paribas Capital Markets Limited**

Algemene Bank Nederland N.V. — **Bank Brussel Lambert N.V.**

County Bank Limited — **Crédit Lyonnais**

Daiwa Europe Limited — **Den norske Creditbank**

Kansallis Banking Group — **Lloyds Merchant Bank Limited**

Mitsubishi Trust & Banking Corporation (Europe) S.A. — **The National Bank of Kuwait S.A.K.**

The Nikko Securities Co., (Europe) Ltd. — **Postipankki**

J. Henry Schroder Wagg & Co. Limited — **Svenska Handelsbanken Group**

Westdeutsche Landesbank Girozentrale — **Yamaichi International (Europe) Limited**

Privatbanken A/S — **Copenhagen Handelsbank A/S** — **Den Danske Bank**

UK COMPANY NEWS

Offer values Windsmoor at £23m

BY RICHARD TOMKINS

Windsmoor, one of Britain's oldest established fashion houses, publishes the prospectus today for an offer for sale which will take it to a full listing at a market capitalisation of £23.3m.

Some 6.6m shares, representing 30 per cent of the enlarged equity, are being offered at 106p a share by Chase Manhattan Securities. Of the £7m to be raised, about £5.4m will go to the Green family which founded the business and the rest, after expenses, to the company.

The business was started in 1933, intially as a manufacturer and wholesaler of women's coats. By 1938 the Windsmoor trademark was registered and the company began supplying department store groups with tailored coats and jackets.

Today the group operates more than 500 shops-within-shops located in leading department stores in the UK and the Irish Republic. Its most important store groups are House of Fraser and Debenhams.

It designs, manufactures and markets high-quality women's wear under two labels, Windsmoor and Planet. The first is pitched mainly at those aged over 35 and the second, launched in 1979, is geared more towards 25 to 45-year-olds.

The profits record shows a 64 per cent compound growth rate over the past five years from £388,000 in 1982 to £2.8m for the year to last January, on turnover up from £22m to £58.8m. The historic price/earnings multiple is 14.

Windsmoor is not making a profits forecast but says sales in the current year have been encouraging in spite of unfavourable weather. Another 16 Windsmoor outlets and 30 new Planet outlets are due to open by next January.

• comment

Fashion-orientated companies are dangerously susceptible to the vagaries of taste at the best of time and the narrowness of Windsmoor's margins leaves painfully little room for mistakes. Windsmoor, however, has been in the business a long time and the record of the past five years suggests that it is good at getting the product right. A potential stumbling block is the price, which looks a little rich for the rag trade. Windsmoor's retort is that it will find itself in the stores sector but even here it looks highly rated next to, say, Ellis & Goldstein or Jacques Vert. On the positive side, however, some £3.5m for the current year would bring the prospective p/e down to a more digestible 10 after a 35 per cent tax charge and the company's fairly high public profile could create enough demand to see what is in any case a small issue off to a reasonable start.

Interest rise hits Belgrave profits

A substantial rise in interest charges from £0.39m to £2.32m left 1985 pre-tax profits of Belgrave Holdings, hotels and property group, lower at £1.81m, against £2.29m previously. Turnover rose from £7.4m to £9.7m.

After a low tax charge of £258,000 (£1.1m) net profits were ahead at £1.55m (£1.19m). An extraordinary charge however, took £1.13m and related to costs in respect of the group's reorganisation, including the disposal of the engineering division and the disengagement from Gomba Holdings (UK).

During the year Gomba Holdings (UK) went into receivership in the course of which its 32 per cent stake in Belgrave was sold. The responsibility for the day-to-day management of the company was only assumed by the present board in December 1985.

Earnings per 25p share were 10.5p (14.5p) before extraordinary items and 2.8p (14.5p) after. The dividend is being raised from 4.2p to 4.5p net.

The directors said they had reviewed all the group's activities and banking facilities. The group had now fully recovered the confidence of all its lenders which was expected to result in an improvement in liquidity and profitability.

The group's investment properties were reviewed and certain properties revalued which increased net assets at December 31 1985 to 170p per share, compared with 147p

Royal Insurance holding talks with estate agency

Royal Insurance, Britain's largest composite insurance group, is in talks with the Blackpool-based estate agent Oyston, with a view to acquiring a substantial minority shareholding in the company.

Such a move would give Royal a major countrywide presence in the estate agency field.

A number of financial institutions—Hambros, Lloyds Bank, Prudential Corporation and General Accident — have recently become major operators in the UK estate agency business all with the avowed aim of a nationwide chain of offices.

Royal Insurance is also a major player in this field. But whereas the other institutions are acquiring the complete equity of the agencies taken over, Royal, through its life company, Royal Life, operates by acquiring a large minority stake.

It entered this field last year through a 25 per cent holding in the Southampton based estate agency of Fox & Co. The current deal is expected to see Royal take a similar size holding in Oyston.

Royal's philosophy is that it does not have the expertise itself to run estate agency businesses. It needs the quality management already in the offices and can retain them by taking a minority shareholding.

Oyston, run by Owen Oyston, is the biggest family business in the estate agency sector and the seventh largest overall, with some 70 offices mainly in North West England.

It is understood that the deal is linked in with Oyston making a takeover of another large estate agency business. This has already happened with Fox & Co making it a near £10m acquisition since Royal became involved in its operations.

Bertam lower at £0.81m

Bertam Holdings, the plantations group, suffered a fall in pre-tax profits from £1.09m to £810,000 for 1985, on turnover £9.6m lower at £1.33m.

Tax took £313,000 (£488,000) and there was an extraordinary charge of £27,000 (£115,000 credit). Earnings per 10p share were 2.49p (3.03p) before extraordinary items and 2.35p (3.6p) after. The net dividend is cut from 1.25p to 0.95p.

Bodycote expands

Bodycote International has acquired the business and net assets of Buckinghamshire-based Itex Safety, a safety equipment concern. The value of net tangible assets acquired was £704,591.

The consideration is to be satisfied by the issue of 296,766 Bodycote shares. For the year ended December 31 1985 Itex made a pre-tax profit of £86,000, prior to management charges of £148,000 from its immediate holding company.

Imry downturn to £1.3m

Imry Property Holdings pre-tax profits fell from £1.79m to £1.31m in the year ended March 31, 1986. The reduction was mainly caused by high interest rates and the loss of revenue from the Turriff building, which has undergone a complete refurbishment.

Tax took £464,000 (£230,000) and there was an extraordinary debit of £15,000 (£30,000). Earnings per 25p share dropped from 11.34p to 6.16p, but the final dividend is 3.9p for a higher total of 5.7p (5.3p) net.

Net asset value per share amounted to 402p (398p) at the year end.

Net income from investment properties climbed from £4.22m to £4.61m. Administration and other expenses accounted for £496,000 (£427,000) and finance costs were higher at £3.11m (£2.53m). Other operating income added £160,000 (£251,000) and share of related company profits came to £144,000 (£171,000).

The directors said no tax relief had been taken into account for US losses of £129,000, but relief had been taken into account for capital expenditure during the year.

No provision had been made for the liability to tax that would arise if the properties were sold at the net amount at which they stood in the financial statements. This liability was estimated at some £10.1m.

The directors said these assets were held as long term investments and there was no intention of effecting any substantial disposal.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims—County Properties, Domino Printing Sciences, Glass Glover, Securigard.

Finals—Carclo Engineering, Electronic Rentals, Fleming Claverhouse Investment Trust, Piston International, Vinten.

FUTURE DATES

Finals—

BET	July 17
Bespak	July 23
Bromsgrove Industries	July 18
Fleming Technology Inv. Trust	July 16
Penny and Giles Intnl.	July 10
Stoddard	July 10

FT share information

The following securities have been added to the Share Information Services: Clarke Hooper (Section: Paper, Printing and Advertising), Davies (D.Y.) (Industrials), Evans Halshaw (Motors, Garages and Distributors), P-E International (Electricals), Regent Mining (Mines, Australian).

Suter/Newman

Suter, Mr David Abell's engineering group, has increased its stake in Newman Industries to 11.4m shares or 9.03 per cent. In April it announced it held 7.23 per cent.

Braithwaite £1m in the red

LOSSES OF £1.02m pre-tax were suffered by Braithwaite Group in the year to end-March 1986, but the directors of this constructional engineer and pressed steel maker, said that much of these were of a non-recurring nature.

There is no dividend for the year. These will be resumed as soon as the directors consider it prudent. In the year to March 1985 dividends totalling 9.1p were paid when pre-tax profits were £148,000.

The group traded profitably in the first quarter of the current year, the directors stated. Since the year end reduced borrowings following the planned disposal of investment properties and a positive cash flow have enabled them to look more confidently to the future.

They added that the development of earnings was the immediate priority. Losses per £1 share this time came out at 20.5p against earnings of 3.6p.

Turnover fell in the year from £11.37m to £9.97m, with reduced exports to Africa and the Middle East. The losses on continuing activities amounted to £286,000 (£566,000 profit) while those on discontinuing activities were £229,000 (£418,000).

The loss on discontinued activities consisted of the trading losses for Braithwaite Engineers to October 1985 when the decision was taken to withdraw from structural steelwork, and Braithwaite Filters closure of the Cardiff factory in July 1985.

There was also an exceptional charge of £505,000 (nil) in respect of the reorganisation of the pressed steel tank manufacturing facility.

There was a tax credit this time of £446,000 (£40,000 charge), but there were below-the-line expenses of £827,000 (nil) extraordinary charges which included the withdrawal costs at Braithwaite Engineers and the factory closure costs of Braithwaite Filters.

As well as taking the remedial action required at Braithwaite Engineers the directors decided to review the rest of the group's activities, and significant provisions have been taken into the accounts for 1985-86.

SHARE STAKES

Changes in company share stakes over the past week include:

MY Dart—Coast Investment & Development of Kuwait has increased its stake to 1.1m ordinary shares (5.35 per cent).

British Benzol — Prudential Portfolio Managers aggregated interest in the ordinary has increased to 1.44m shares (6.44 per cent).

Fleming Technology Investment—Kuwait Investment Office now interested in 2.75m ordinary (6.97 per cent).

Greenall Whitley — Director C. J. Hatton acquired 22,000 "A" ordinary shares.

Apricot Computer — Prudential Corporation now owns 3.11m ordinary (5.5 per cent) split as follows: Prudential Assurance 2.17m and Prudential Nominees 942,344.

Moorgate Mercantile Holdings—Bricomin Investments, a wholly owned subsidiary of British and Commonwealth Shipping, has acquired 200,000 ordinary, bringing total holding to 5.48m (21.9 per cent).

Exco Intl—Following purchase of 500,000 ordinary, Tan Sri Khoo Teck Puat now interested in 67.85m. On June 30 director J. G. O'Neill sold 150,000 shares at 220p.

Telfos—Director J. Malins purchased 20,000 and 30,000 ordinary and now holds 1.89 per cent of that class.

LADBROKE INDEX
1,354-1,360 (−7)
Based on FT Index
Tel: 01-427 4411

FINANCIAL TIMES STOCK INDICES

	July 4	July 3	July 2	July 1	June 30	June 27	1986 High	1986 Low	Since Compilation High	Since Compilation Low
Government Secs.	91.66	91.24	90.74	90.43	90.34	90.84	94.51	80.39	127.4	49.18
Fixed Interest	97.44	97.00	96.86	96.78	96.71	96.96	97.51	86.55	150.4	50.53
Ordinary	1366.5	1366.7	1366.6	1373.7	1367.1	1354.4	1425.9	1094.3	1425.9	49.4
Gold Mines	196.3	199.4	198.2	204.2	202.5	198.5	337.0	192.3	734.7	43.5
FT-Act All Share	816.09	818.87	819.29	820.28	815.70	808.78	852.39	664.42	832.39	61.92
FT-SE100	1649.4	1656.2	1656.7	1660.8	1649.8	1639.1	1717.6	1370.1	1717.6	986.9

UK COMPANY NEWS

Anglo United Development midway profits shortfall

DESPITE A less than satisfactory first half for Anglo United Development Corporation, the directors said they remained confident of the year's outcome. They declared an interim dividend of 0.5p gross and intended to recommend a final of not less than 1p gross.

The company is incorporated in Canada, and is principally engaged in opencast coal mining in the US and the UK.

It said it intended to move its residence and status to England and substantial work had been completed by its advisers to put this into effect.

For the half year ended April 30 1986 the inclusion of £922,000 net proceeds from an insurance claim in the US had led to a pre-tax profit of £682,000, compared with £1.51m. Turnover fell to £8.32m (£9.19m).

Some £57,000 of the insurance proceeds related to capital loss of a coal preparation plant which collapsed last June, and the balance represented amounts due as a result of loss of trading profit and related professional fees.

Although almost all loss of profit related to the current year, the insurance proceeds were treated as exceptional profits in view of the seasonal nature of anthracite sales, and because rer coal was still produced during the period for stock.

The directors expected the company to benefit from an agreement with British Coal to extract the vested coal at the Roughcastle site in Scotland, summer stocking plans of major UK customers, and new major contracts won by US coal brokers.

The company started operations in the North Midlands where it was awarded an opencast site from British Coal. This will generate revenues of some £3m over the period of the contract, expected to be two years.

After tax of £57,000 (£680,000) the net profit for the half year came to £595,000 (£826,000) for earnings of 0.7p (1.1p) per share. Last time there was an extraordinary debit of £450,000 being expenses of admission to listing on the London Stock Exchange.

CONTRACTS

£20m order for Distington

DISTINGTON ENGINEERING CONTRACTING has won a contract work £20m. The company will supply two continuous casting machines for United Engineering Steels in Rotherham. Mr Howard Oates DEC's commercial manager, said the order, along with another recent similar contract from British Steel, should ensure job security for the 130-strong workforce for the next 18 months. DEC was taken over in April by the Davy Corporation, from British Steel, for £1.5m.

★

HUMPHREYS AND GLASGOW has been awarded an offshore contract worth over £6m by Hydrocarbons Great Britain, a wholly-owned subsidiary of British Gas, for engineering and procurement on phase 1, stage 2, of the Morecambe Bay gas field development. The contract covers engineering, design and procurement by H and G and its subsidiary, Earl and Wright, for three drilling platforms to be located in about 100 ft of water together with interlinking subsea pipelines. Conceptual design for the platforms was carried out by Earl and Wright and all three platforms will incorporate slant drilling facilities. A feature of the project will be the extensive use of computer-aided design.

★

HARLAND SIMON has been awarded a contract worth over £5m by M.A.N. ROLAND of Augsburg, West Germany. The contract is for the supply and installation of electrical drive controls, with associated microprocessor and computer equipment for the 18 Colorman presses destined for the British Newspapers Printing Corporation. Delivery starts later this year and the order, which includes an option for a further five presses, is believed to be the largest placed in Europe for equipment of this type.

★

TURNER & NEWALL'S subsidiary, TBA Belting, has been awarded a 40 per cent share of British Coal's 1986-1987 contract for solid woven fire-resistant anti-static PVC conveyor belting for both underground and surface use. This is the largest contract gained by TBA Belting and on current estimates will be worth over £10m. The contract includes provision of belting with polychloroprene covers for which TBA claims technical leadership.

★

An export order for digital telephone exchanges has been won by London-based COMMUNICATION SUPPLIES. Announcing the £11.6m sale of 43 UXD5 exchanges to the Kenya Posts and Telecommunications Corporation, the company says it has won its second contract for rural digital telephone exchanges. The first contract for 17 exchanges was awarded earlier last year and these have been shipped to Kenya. The first two are expected to be installed and commissioned by August. The second order is for 26 UXD5 digital exchanges and related equipment. Both contracts include training, installation, supervision and maintenance which will be supplied by British Telecom. The new contract will also provide British manufactured Lister diesel engine generator sets and air-conditioning units to support the systems.

★

A 33.6 MW turnkey diesel power station contract has been awarded by the Cravo Norte Association, formed by Ecopetrol (Government Entity), Shell de Colombia, Inc, and Occidental de Colombia, Inc, to a joint venture association between HAWKER SIDDELEY POWER ENGINEERING (HSPE) of Leicester and DISTRAL SA of Bogota, Colombia. HSPE will receive over £6.5m of the total $25 (£16.5m) contract value. The contract will be completed in October 1987.

HSPE has overall project management and design responsibility. Procurement of equipment will be from both the UK and Colombia and will include the provision of four crude-oil-burning 8.4 MW, reciprocating diesel engines from Mirrlees Blackstone of Stockport, the associated alternators being provided by Brush Electrical Machines of Loughborough. Both companies are members of the Hawker Siddeley Group.

The Mirrlees Blackstone engines will operate at a crankshaft speed of 600 rev/min and a nominal brake mean effective pressure of 19 bar. They will be capable of operation on either light diesel fuel or on the locally-produced crude oil. A team of Occidental engineers will be resident with HSPE for the first two months of the contract to approve basic designs and ensure compatibility with the earlier phases of the development.

The power station award comes under the third phase of Occidental's oil pumping project at Cano Limon Field where crude oil is being pumped direct from the ground. A yield of 250,000 barrels per day of high grade crude oil is expected from the field.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not ncessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
*Abbey Life	July 18	Interim due
*ASDA-MIW	July 21	Final due
*Associated Newspapers	July 9	Interim 5.5
*BET	July 17	Final 11.25
BTP	June 18	Final 2.3
*Barclays Bank	Aug 7	Interim 8.4
Britoil	July 12	Interim 3.3
*Daily Mail and Gen Trust	July 10	Interim 15.5
Dee Corp	Aug 8	Final 4.0
*Dowty	July 23	Final 2.8
*Electronic Rentals	July 7	Final 2.085
GKN	Aug 7	Interim 4.5
Gestetner	July 18	Interim 0.5
Glynwed	Aug 5	Interim 3.75
*Granada	July 8	Interim 2.53
Great Universal Stores	July 18	Final 11.75
*Hogg Robinson	July 8	Final 4.2
*Intnl Leisure	July 15	Final due
*Lister	June 30	Final 0.25
*Lloyds Bank	July 25	Interim 7.5
Magnet and Southerns	July 10	Final 2.7
Mercantile House	July 31	Final 9
*Midland Bank	July 31	Interim 11
NatWest Bank	July 30	Interim 10
Ocean Transport	July 31	Interim 2.15
*Rank Organisation	July 17	Interim 5.5
STC	Aug 9	Interim nil
Securicor	Aug 7	Interim 0.49
Smith & Nephew	Aug 8	Interim 1.4
TI	Aug 8	Interim 5.0
*Thorn EMI	July 10	Final 12.5
Tomkins (F. H.)	July 29	Final 1.475
*Union Discount	July 16	Interim 11.0
Yorks Chems	Aug 8	Final due

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

CONSTRUCTION CONTRACTS

Pyramid Hospital project

COSTAIN INTERNATIONAL in joint venture with **CRC HASSAN DORA** has been appointed main contractor for the £25m first phase construction of the Pyramid Hospital project in Cairo, Egypt. Project manager, Higgs & Hill is responsible for the design, construction and equipping of the hospital for The Cairo Organisation for Medical Treatment. The Pyramid Hospital project will provide 300 beds with facility to extend to 600 in two further phases. The nine-storey stepped structure will have a reinforced in-situ concrete frame, floors and roof. The building is based on a 7.2 metre grid and accommodation is arranged around a central courtyard. Walls are of cavity blockwork, painted white, while planted terracing is used at each level. The wards are located on the perimeter of the building with access to the terraces. Green aluminium louvred shading will project two metres from the concrete edge beams to further emphasise the building's stepped form. The project is due for completion in 140 weeks from the date of commencement.

*

JOHN SISK AND SON has secured six contracts with a total value of over £2.8m. The largest contract, worth £900,000, is to carry out the external renovation of the Park Court Hotel in Lancaster Gate W2, for Mount Charlotte Investments. Other projects include the construction of an office building at St Albans for Gosvenor Square Properties Group, value £800,000; the conversion of St Marks Church, Hanwell, to form 19 flats for the Northcote Housing Association; two projects for the Royal Borough of Kensington and Chelsea to refurbish changing room facilities and install health suites at the Kensington and Chelsea sports centres. The work at the Kensington sports centre is being carried out as a sub-contract package to Bovis Construction. The company is also to refurbish an existing Nash designed terraced house at Regents Park to form offices for Home Equity Relocation.

Crossing London by British Rail

BY JOAN GRAY, CONSTRUCTION CORRESPONDENT

RE-OPENING THE Victorian Snow Hill railway tunnel under the heart of the City of London is a key part of British Rail's new strategy of offering an improved service to attract more passengers.

The Snow Hill tunnel will carry an estimated 20,000 passengers a day and will make a new range of journeys possible when it opens in May next year, by providing a link between Farringdon and Blackfriars railway stations, and between the Midland and Southern railway regions.

The most important new route will be the link between Luton airport in the north and Gatwick Airport in the south.

But the tunnel will also make other cross-London trips—such as Bedford to Brighton—possible without any need to cross the city from one terminus to another to change trains.

The tunnel was closed in 1969 because it was no longer railway policy to have any direct north to south crossings, and the powerful railway regions then acted more like the old competing railway companies in their dislike of having links between them.

Now the railway regions in an 80 miles radius around London have been grouped together under the banner of Network South East, under the leadership of a new Network head, Mr Chris Green.

The old barriers have been broken down, and the new motto is to try to generate new traffic with new services and a new spending programme.

Re-opening the Snow Hill tunnel will cost £54m — of which the civil engineering works needed will cost only £2m, and the rest will be spent on rolling stock and re-equipping.

Mr David Sparrow, the British Rail civil engineer in charge of re-opening the tunnel—and who was also in charge of closing it down some 17 years ago—is quick to admit that as a civil engineering job it is hardly difficult.

"There are virtually no civil engineering problems at all," he said. "Basically what we have to do is dig out the old formation of the floor of the tunnel to a new level and put in modern ballast to get the height for modern trains and make the gradients shallower."

The base of the tunnel is being excavated to a depth of between 300mm and one metre to ease the gradient from a slope of one in 30 or 40 to one in 50 and to provide a gentle, evenly sloping bed for the new double track.

Before work could start on the tunnel bed, 2,000 cu metres of rubbish had to be removed, as the 600-metre long disused tunnel had become a tip.

The work is being carried out by the Surrey-based contractor, Farnol of Whyteleafe, and included removing three old cars and one seat—which is now in the Museum of London—from the original Victorian station inside the tunnel.

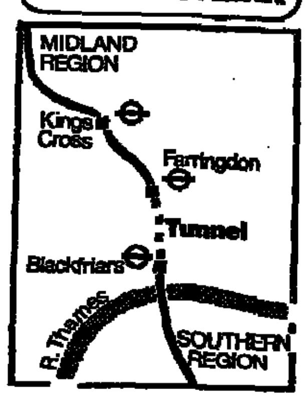
No new Snow Hill station within the tunnel is yet being built. But British Rail is evaluating plans to sell the little-used Holborn Viaduct station above for office development, and to use the proceeds to build a new station inside the tunnel itself, half way between the two main stations of Farringdon and Blackfriars.

One reason for the civil engineering simplicity of the project to reopen the tunnel is the excellent state of preservation of the original Victorian structure. No water had percolated through, so no new drainage system or major repair was needed.

Another factor is that Snow Hill was not built as a tunnel but as an open deep-trench railway in 1860, which was subsequently covered by the City buildings—such as Smithfield meat market—over and around it.

"Except for the soot on the tunnel from the steam trains it was in perfect condition," said Mr Sparrow. He is now selling the freshly-removed steam-train soot to railway fans for 50p a bottle.

BR Tunnel Link



*

JOHN WILLMOTT GROUP has been awarded contracts worth £4.9m. John Willmott has been awarded a contract worth about £2.5m by London Industrial Park for a retail discount centre at Beckton, E6. The company has a contract worth around £1.1m by Ling Dynamic Systems for the erection of a factroy and office extension. A contract worth in the region of £690,000 has been placed by Cadogan Estates for alterations, extension and refurbishment at 18 Cadogan Gardens, SW3, to provide high quality office accommodation. A contract worth around £630,000 for London Borough of Hounslow, is for the erection of a new roof to an existing building at Cranford Community College, Cranford, Middlesex.

Glaxo tablet production facility

An advanced pharmaceutical tablet production facility is to be designed and built at Ware in Hertfordshire for Glaxo Operations UK by **SHEPHERD CONSTRUCTION and SHEPHERD ENGINEERING SERVICES JOINT VENTURE**. Contract value of the project approaches £11.5m.

To be located within Glaxo's factory complex, the tablet production facility has been designed with capacity to meet demands for the future. The facility will comprise a three-storey main production building with a floor area of 10,500 sq metres and a separate services building. Shepherd Construction will carry out the structural work and Shepherd Engineering Services (SES) will be responsible for design and installation of the mechanicala nd electrical services.

Both buildings will have structural steel frames although the production building will employ an in-situ concrete ground and first floor frame. There will be brickwork up to first floor height with interlocking insulated cladding above this level. All internal finishes to the production building will be to the highest standards demanded by a pharmaceutical production facility. The project is scheduled for completion in April 1988.

THE WEEK IN THE COURTS

Clash of legal principles over admissibility of evidence

THERE WAS a dramatic clash of legal principles in *Goddard and another v Nationwide Building Society* (Times Law Report, July 2, 1986 and FT Law Report, July 4, 1986).

One of the principles may be described as the doctrine of the *supremacy of evidence. It is* inherent to the nature of court proceedings.

The outcome of any trial depends on evidence, not on allegations. Without evidence a court case is a travesty. The evidence must be relevant to an issue in the ease. It must also be admissible according to the current rules of the law of evidence.

If it is irrelevant or inadmissible, it must be disregarded and excluded. It must not be suppressed or excluded if it is relevant and otherwise admissible; it must then be taken into account, considered, accepted or rejected.

As long as it is relevant and admissible the court, as a general rule, will not be concerned with the way in which it was obtained or came to light.

When this principle prevails, the confidentiality of a document in itself does not affect admissibility in evidence.

The other principle is in no way inherent to the nature of court proceedings and may be described as the doctrine of the preservation of confidentiality. It arises from various legitimate demands, expectations and needs in several aspects of everyday life, including business and professional dealings.

On occasion, one person may communicate information or *opinions to another* on the strict understanding that further disclosure is prohibited. Furthermore, a relationship between two persons, for example between a client and a solicitor, may involve by its very nature, a degree of confidentiality.

There are circumstances in *which the courts are* prepared to uphold and protect the confidential nature of a communica*tion or a relationship.*

When this principle prevails, the confidentiality of a document is neither affected nor diminished by its admissibility in evidence.

How did the clash of principles occur in the Goddard case? How did the courts resolve it?

It was a dispute between two *house purchasers and a* building society about whether a survey report had been pre*pared negligently.*

The building society in its defence relied on the contents *of an attendance note made by* the house purchasers' solicitor. The note contained details of a *conversation* between Mr Goddard, one of the purchasers, and his solicitor.

The solicitor, who also acted for the building society, had sent the society a copy of the *note when he was aware that* the purchasers had issued a writ against the society to *claim damages for negligence.*

The two purchasers, Mr Goddard and Miss Rose, made two *applications to* the court. One was for an order to strike out various passages in the building *society's defence* which relied on the contents of the attendance note. The note was a *privileged document.*

The other was for an injunction to stop the society using *or copying* the note and ordering the society to return it and all copies.

Mr Justice Hollings rejected both applications. The Court of Appeal allowed them.

The court conceded that, if a litigant had in his possession copies of privileged documents, he might use them as evidence in his litigation. This was established in *Calcraft v Guest* (1898 1QB 759).

But if he had not yet used the copies in that way, the fact that he intended to do so was no answer to a claim against him to deliver them up or to restrain him from making use of them.

Such a claim depended on the *court's* equitable jurisdiction applied in such cases as *Lord Ashburton v Pape* (1913 Ch 469). In that case, the court protected the confidential nature of letters between a client and his *solicitor in the same way as it* would protect an employer's trade secrets against unauthorised use by a former employee after the termination of employment.

In the course of his judgment in the Goddard case, Lord Justice Nourse mentioned several points which might help to remove confusion caused by the apparent conflict between the rule of evidence in the Calcraft case and the rule of equitable jurisdiction in the Ashburton case.

The Calcraft rule applied to, and prevailed in, proceedings the purpose of which did not include the protection of confidential communications.

The Ashburton rule prevailed over the Calcraft rule only in cases in which some legal privilege could be claimed for confidential communication.

The purpose of an injunction in a case to which the Ashburton rule applied was to assist a legal privilege. The court had no discretion to refuse it because of such considerations as the materiality or the justice of admitting or excluding the particular confidential communication in issue.

The right of a party to the equitable jurisdiction did not depend on the conduct of the person against whom it was to be used. An injunction could be granted against an innocent stranger who had come into possession of confidential information.

Even in cases to which the Ashburton rule did not apply, public policy could prevent a party who had acted improperly from benefiting from the Calcraft rule. It was in the public interest that litigants be able to bring documents into court without fear they might be filched by opponents and used in evidence.

In the *overlap between the Calcraft rule and the Ashburton rule,* there was a valid distinction between civil proceedings and criminal proceedings, recognised by Mr Justice Goff (as he then was) in *Butler v Board of Trade* (1971 Ch 680).

In civil proceedings the private right of the individual prevailed; in criminal proceedings, there was a conflict between that right and the interest of the State to apprehend and prosecute criminals.

The judgment in the Goddard case of Lords Justices May and Nourse is useful in its analysis of the scope of previous conflicting cases. But the clash of legal principles remains and this is unlikely to be the last occasion on which the courts will be asked to resolve the conflict and confusion.

Justinian

This week in Parliament

TODAY

Commons: *Private members' motions* until 7 pm. Debate on the tin industry. Remaining stages of the Latent Damage Bill and the Education Bill.

Lords: Gas Bill (report). Motor Vehicles (variation of speed limits) regulations. Pool Competitions Act 1971.

Select Committees: Foreign Affairs: Current foreign policy issues. Witness: Sir Geoffrey Howe, Foreign Secretary. (Room 15, 3 pm). Treasury and Civil Service: International credit and capital markets. Witnesses: Sir Jeremy Morse, Mr Christopher Johnson and Mr Richard O'Brien (Room 8, 4.45 pm). Foreign Affairs: UK/Soviet relations. Witnesses: Mr Leonid Zamatin, the Russian Ambassador and Colonel General N. Chervov (Room 15, 5 pm).

TUESDAY

Commons: Finance Bill, progress on remaining stages. Patents Designs and Marks Bill, remaining stages. Debate on EC documents relating to agricultural structures.

Lords: Wages Bill (report).

Select Committees: Channel Tunnel Bill: Petition of East Sussex and Kent local authorities (Westminster Hall Grand Committee Room, 10.30 am). Foreign Affairs: The South African situation. Witness: Mr Len Abrahams, vice-president of the South Africa Foundation (Room 15, 4.30 pm). Committee on Private Bills—British Railways (Stansted) Bill (Room 5, 11 am).

WEDNESDAY

Commons: Estimates debate relative to supplementary benefits payments for private and voluntary residential care for the elderly; estimates on labour market services.

Lords: Gas Bill (report). Firearms (variation of fees) Order 1986, motion for approval.

Select Committees: Channel Tunnel Bill—East Sussex and Kent local authority petitions (Grand Committee Room, Westminster Hall, 10.30 am). Foreign Affairs: The South African situation. Witness: Mr Denis Healey (Room 8, 10.30 am). Scottish Affairs: Hospital provision. Witnesses: John Laing Construction Ltd; AMI Health Care Ltd (Room 19, 10.30 am). Trade and Industry: The post office (monitoring inquiry). Witness: Post Office (Room 15, 10.30 am). Home Affairs: Rules for the redistribution of seats. Witnesses: Boundary commissions for England and Wales (Room 6, 4.15 pm). Social Services: Primary health care. Witness: Royal College of Nursing (Room 21, 5 pm). Committee on a private bill—British Railways (Stansted) Bill (Room 5, 10.30 am). Unopposed bills — Milford Haven Port Authority, Bromborough Dock, Bournemouth-Swanage Motor Roads Ferry (Room 9, 4 pm).

THURSDAY

Commons: Estimates debates related to the European Communities. Remaining stages of the European Communities (Amendment) Bill.

Lords: Public Order Bill, Committee. Dockyard Services Bill, third reading.

Select Committees: Channel Tunnel Bill: Petitions of East Sussex and Kent local authorities (Westminster Hall Grand Committee Room, 10.30 am). Agriculture: Effects of pesticides on human health. Witnesses: Poisons Reference Centre; Occupational Health Service; Advisory Committee on Pesticides (Room 16, 10.45 am). Committee on a private bill—British Railways (Stansted) Bill (Room 5, 10.30 am).

FRIDAY

Commons: Debate on the policing of the Metropolis.

Lords: Financial Services Bill, second reading. Unstarred question on government action to combat Ulster's problems.

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price	+ or −	Net. Div.	Times Cov'd	Gross Yield	P.E. Ratio
‡125	F.P.	24/7	150	136	‡Accord Publications 5p	148	−2	R4.1	2.6	3.0	18.7
‡‡	F.P.	15/8	127	114½	‡Airsprung Group 10p	120xd	.....	5.4	2.8	6.3	7.9
150	F.P.	30/6	151	138	Almasc Group	150	.....	R5.85	2.5	5.5	10.4
115	F.P.	11/7	190	155	Aylington Sec. 10p	183	.....	b1.7	4.3	1.3	25.1
150	F.P.	20/6	161	148	Barker (Charles) 5p	153	−2	u3.0	9.1	2.8	16.7
‡145	F.P.	—	158	145	‡Beaverco 5p	147	.....	u5.0	2.4	4.8	11.7
‡‡	F.P.	—	58	43	Bertrams Inv. Tst.	43	−2	—	—	—	—
‡37½	F.P.	25/7	43	38	‡Bipel 5p	43	+1	R1.225	3.1	4.0	10.8
147	F.P.	4/7	142	130	Blick 5p	140	−2	R3.4	3.1	3.4	13.4
125	F.P.	—	138	128	‡Borland Intl. Inc	136	+2	u02c	1.4	1.0	19.0
145	F.P.	25/7	175	148	Bredero Props	148	−2	R4.25	2.3	4.0	12.6
‡60	F.P.	20/6	65½	54	‡Brit. Isl. Airways 10p	58	+2	bd2.82	2.1	6.8	8.1
‡110	F.P.	18/7	115	100	‡C'bell & Armstrong 5p	100	.....	u3.91	1.9	5.5	12.7
‡125	F.P.	—	135	131	‡Chelsea Man 5p	134	−1	L2.2	2.8	2.3	22.0
‡‡	F.P.	—	100	85	Clarkson (Horace)	100	+3	L4.75	1.5	6.7	13.7
‡84	F.P.	1/8	91	84	‡Coated Electrodes 5p	86	+2	u3.9	1.6	6.4	13.4
‡50	F.P.	11/6	64	50	‡Dean & Bowes 5p	64	.....	L2.5	1.5	5.5	17.3
‡58	F.P.	4/7	64	59	Denistron Intl 5p	63	.....	u1.65	2.1	3.7	16.1
[illegible]											

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price £	+ or −
[illegible]							

"RIGHTS" OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price p	+ or −
[illegible]							

[illegible]

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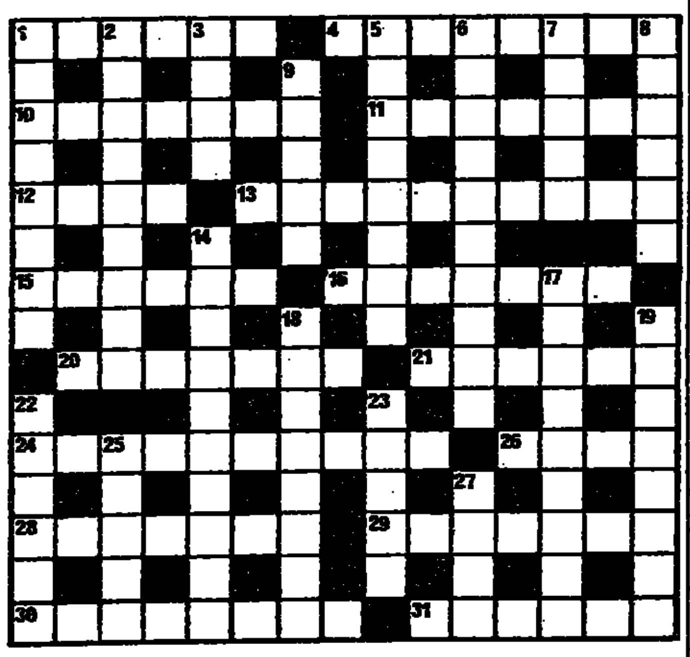
F.T. CROSSWORD PUZZLE NO. 6,066

HIGHLANDER



ACROSS

1 Plot to get rid of first man to work (6)
4 Where Uncle makes his puppets dance? (8)
10 It's turning over refuse outside that will made fortune (7)
11 Discovered by Shakespeare's King Edward (7)
12 There's a small amount in the Greek character (4)
13 Insane reason for building engine (10)
15 Variations in game provide a puzzle (6)
16 Old, quaint, broken English (7)
20 Remaining young generation lacking? (7)
21 Works to eliminate the unknown element (6)
24 Included unusual piece in the beginning (10)
26 Father to the French, wife to the German (4)
28 Ends in better ministerial control of spending (7)
29 The number having qualified can be defended (7)
30 Unexpectedly come upon pass (8)
31 Some old explorers of the deep (6)

DOWN

1 Grandfather clock? (3-5)
2 What leading location is turning over? (9)
3 Complain about would-be storyteller (4)
5 With everything included there's nothing lost (3, 5)
6 Italian chocolate with ice-cream (10)
7 Part of speech indistinct from language (5)
8 Defended like careful batsman and plodded (6)
9 Yarn only gets tangled on top of needle (5)
14 Little characters scamper about the avenue (5, 5)
17 Can be said to be thorough and competent (9)
18 After a poor set there's danger for the star (8)
19 At end of it they wake up in men's clothing (8)
22 Writer goes down both sides of street looking for restaurant (6)
23 On the cards one will accept union backing? That's clever (5)
25 Lady chemist introduced iodine into healing process (5)
27 Not in favour of a tin building (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

AUTHORISED UNIT TRUSTS & INSURANCES

Wardley Unit Trust Managers Ltd (a)
Wardley House, 7 Devonshire Sq, EC2   01-929 1532

American Tst.	65 7	70.7	+0 1	1 6
Far East & Gn. Tst.	91 5	97 4	+0 1	1 0
Intl. Growth Tst	67 4	71 7		0.8
Income Tst.	83 9	90 2	+0 4	5 6
Japan Growth Tst.	112.0	120 5	+0 1	0 2
Small Cos. Tst.	116 7	125 7	+0.9	2 0
Tchnlgy Tst.	33 0	35 0		0 2
Australia Trust	36 4	33 9	+0 8	2 0
UK Trust	130 9	139.3	+0 3	2 7
European Growth Tst	48 6	51.7	+0 1	1 2
Hong Kong Tst.	20 2	21 4		1 6

Waverley Asset Management Ltd (a) (c) (g)
13 Charlotte Sq, Edinburgh   031-225 1551

Australasian Gold	14 5	15 5	+0 2	0 15
Pacific Basin	12 9	13.7	+0.2	0.2
Canadian Balncd Gnth.	59 0	63 0		0.98
Gruter Mar	100.1	104 2		7 8

WestAvon Unit Trust Managers Ltd(a)(c)
9 Portland Square, Bristol BS2 8SS   0272 428431

British Smllr Co's (1)	58.3	60 0	−0 1	1.50
British Growth (2)	68 0	69 9	+0 4	1 75
British Income (1)	66 5	68 4	+0 2	4 75
British Extra Yield (2)	51 7	53 2	+0 3	6.50

Whittingdale Unit Trust Managers
2 Honey Lane, London EC2V 8BT   01-606 9085/6

Short Dtd Gilt Fd.	67.3	68 4	+0 1	0 00
U S Govmnt Bond F	$0.504	0 506		

Windsor Trust Mngrs Ltd
83 Kingsway, London WC2B 6SD   01-405 8331

Capital & Equity Tst	49 7	52 9	−0 1	7 51
Growth Trust	52 5	55 9	+0 2	2 19
Income Trust	55 6	59.2	−0.2	4 95

Wright Seligman Fund Managers Ltd
11 Blomfield St, London EC2M 7AY   01-588 0592

Growth Fund	69 0	72 5		2 90

Weekly dealing day Tuesday

The Yorkshire General Trust
Woodsome Pk, Fenay Bdge, Huddersfield   0484 602250

Y G T	124 4	132 4	+0.5	3 44

Cannon Assurance Ltd—Continued

Index	112 0	118.5	+0.3	
Far East	168 5	178.3	+0 5	
Global	94 7	100 2		
European	96 0	101 6	+0.3	
Japan	102 7	108 1	+1.8	
2nd Series Pension Accumulation				
Equity	501 0	530.2	+0 1	
High Income	329.2	348.4	−0 8	
Property	277 4	293 5		
Managed	341 7	361 6		
Deposit	249 1	263 6		
Gilt	258 9	274 0	+1 2	
American	397 0	420 1	−2 4	
International Money	255 6	270 5	+1 1	
Index	122 5	129 6	+0 3	
Far East	182 1	192 7	+1 1	
Global	94 7	100 2		
European	96 3	101 9	+0 3	
Japan	104 2	110 3	+2.3	
Other Funds				
Equity Units		67 97	+0 02	
Property Units		21 08		
Equity Bond/Exec	42 44	44 41	+0 01	
Property Bond/Exec	28 42	30 07		
Balanced Bond/Exec	33 76	35 73		
L&E SIF 1	110 0	117 0		
L&E SIF 2	72 5	76 5		

City of Edinburgh Life Assurance
46 Charlotte Sq, Edinburgh EH2 4HQ   031-225 1655

Ivory & Sime Bond	106 0	112.0	
Risk & Reward Bond	119 0	126 0	
Murray Johnstone Fd	116 0	123 0	
Money Market Fd	100 0	106 0	
Ivory & Sime Pen. Fd	99 0	105 0	
Risk & Reward Pen. Fd.	101 0	107 0	+1 0
Murray Jstone Pen. Fd	114 0	120.0	
Money Market Pen. Fd	100 0	106 0	

City of Westminster Assurance
Sentry House, 500 Avebury Boulevard, Cent Milton Keynes MK9 2LA   Tel 0908 606101/660888

Current Series			
Property Fund	113 9	119 9	
Money Fund	219 0	230 6	+0 1
Managed Fund	405 1	426.5	+1 2
Equity Fund	255 5	269 0	+0 5
Fixed Interest Fund	150 1	158 0	+1 1
Far East Fund	185.3	195 1	+1 6
North American Fund	188.6	198 6	+0 1
Natural Resources Fund	133 5	140 6	−1 4
S U N Flag Fund	125 5	132.3	+1 2
Pension Managed Fund	380.0	400 0	+0 5

INSURANCES

AA Friendly Society

Abbey Life Assurance Co Ltd

Aetna Life Insurance Co Ltd

Albany Life Assurance Co Ltd

Allied Dunbar Assurance Plc

Ambassador Life Ass. Co. Ltd.

American Life Insurance Co UK

Baltic Assurance Funds

Barclays Life Assur. Co Ltd

Black Horse Life Ass. Co Ltd

British National Life Assurance Co Ltd

Canada Life Group

Cannon Assurance Ltd

Clerical Medical/Fidelity International

Clerical Medical Managed Funds Ltd

Colonial Mutual Group

Commercial Union Group

Continental Life Insurance PLC

Cornhill Insurance PLC

Credit & Commerce Life Ass. Ltd

Criterion Assurance Group

Crown Financial Management Ltd

Crusader Insurance Plc

Devonshire Life

Eagle Star Insurance Co Ltd

Eagle Star Insur./Midland Assur.

Equitable Life Assurance Society

Equity & Law

Family Assurance Society

Federation Mutual Insurance Ltd

Framlington Life Insurance Ltd

Friends' Provident Life Office

GT Management Ltd

General Accident Linked Life Assurance(z)

General Portfolio Life Ins. Plc

Gresham Unit Assurance Ltd

Growth & Sec. Life Assce. Soc. Ltd

Guardian Royal Exchange

Hearts of Oak Benefit Society

Henderson Administration (z)

Hill Samuel Life Assur. Ltd

Imperial Life Ass. Co of Canada

Imperial Life (UK) Ltd

Irish Life Assurance Co Plc

The LAS Group

Assicurazioni GENERALI SpA

Kingswood House, Kingswood, Tadworth, Surrey KT20 6EU

Langham Life Assur. Co Ltd

Legal & General (Unit Assur) Ltd

Legal & General Prop. Fd. Mgrs. Ltd

Liberty Life Assurance Co Ltd

For Lloyds Life Assurance see Royal Heritage Life Assurance Limited

London A'deen & Nthn. MU. Assur. Ltd

London Indemnity & Gnl. Ins. Co Ltd

London Life

London & Manchester Group

M & G Group

MGM Assurance

Manufacturers Life Insurance Co (UK)

Merchant Investors Assurance

Municipal Life Assurance Ltd

NEL Britannia Assce Co Ltd

NEL Pensions Ltd

National Mutual Life

National Mutual of Australasia

National Provident Institution

Norwich Union Asset Management Ltd

Norwich Union Life Insurance Soc.

Pearl Assurance (Unit Funds) Ltd

Phoenix Assurance Co Ltd

Pioneer Mutual Insurance Co Ltd

Premium Life Assurance Co Ltd

Property Equity & Life Ass. Co

Property Growth Assur Co Ltd

Property Growth Pensions & Annuities Ltd

Providence Capitol Life Ass. Co Ltd

Provident Life Assoc Ltd

Provident Mutual Life Assc. Assn.

Provincial Life Assurance Co Ltd

Prudential Assurance Co

Prudential Pensions Limited

Regency Life Assurance Co Ltd

Reliance Mutual

Royal Heritage Life Assurance Ltd

Royal Life Insurance Co Ltd

Save & Prosper Group

Schroder Life Assurance Ltd

Scottish Amicable Investments

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Mutual Investments

Scottish Provident Institution

Scottish Widows' Group

Sentinel Life plc

Skandia Life Pensions

Skandia Fidelity Funds

Skandia Gartmore Funds

INSURANCE, OVERSEAS & MONEY FUNDS

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

World Fund S.A.
2 Boulevard Royal, Luxembourg

World Fund NAV	$18.23		+0.15	—

World Wide Growth Management◊
10a, Boulevard Royal, Luxembourg

Worldwide Gth Fd	$16.74		+0.04	—

Inv. Adv.: M. & G. Inv. Mngt., Ltd, London

Yamaichi Dynamic Mngt Co SA
10A Boulevard Royal, Luxembourg

Advanced Tech	$17.46		+0.27	—
Dynamic Gwth Fd	$18.98		+0.39	—

Zero Bond Fund Limited
PO Box 208, St Peter Port, Guernsey 0481 26268

Zero Bond Fund	$11.72	12.42		—

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
The Charities Deposit Fund				
2 Fore Street, London EC2Y 5AQ			01-588 1815	
Deposit	9.75		—	3-Mth
The Money Market Trust				
63 Qn Victoria St, EC4N 4ST.			01-236 0952	
Call Fund	10.38	7.76	11.30	6mth
7-day Fnd	10.02	7.49	10.90	6mth
Oppenheimer Money Management Ltd				
66 Cannon St, EC4N 6AE.			01-236 1425	
Call Fnd	10.07	7.53	10.80	6-Mth
7-day Fund	9.75	7.29	10.45	6-Mth
Dollar	6.87	—	—	6-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Adam & Co. plc				
22 Charlotte Sq, Edinburgh EH2 4DF			031-225 8484	
Full Service Chr Acc	9.25	6.80	9.82	Qtr
Aitken Hume				
30 City Road, EC1Y 2AY.			01-638 6070	
Treasury Acc	9.25	6.91	9.99	Qtr
Mth. Int. Chq.	9.25	6.91	10.04	Mth
Allied Arab Bank Ltd				
97-101 Cannon St, London, EC4N 5AD			01-283 9111	
High Int. Cheque Acc	10.5	7.85	11.46	Mth
Bank of Scotland				

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. # Suspended. ◆ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ◊ Yield column shows annualised rates of NAV increase. xd ex dividend.

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		p
Allied-Lyons	28	Marks & Spencer	18
BAT	38	Midland Bk	44
BOC Grp	32	NEI	11
BSR	14	Nat West Bk	70
BTR	45	P & O Dfd	45
Babcock	20	Plessey	20
Barclays	45	Polly Peck	16
Beecham	32	Racal Elect	17
Blue Circle	55	RHM	20
Boots	26	Rank Org Ord	48
Bowaters	30	Reed Intnl	75
Brit Aerospace	48	Sears	12
Brit. Telecom	17	TI	42
Brown (J.)	3	Tesco	30
Burton Ord	32	Thorn EMI	35
Cadburys	17	Trust Houses	12
Charter Cons	22	Turner Newall	18
Comml Union	28	Unilever	120
Courtaulds	26	Vickers	40
Distillers	52	Wellcome	19
FNFC	15	**Property**	
Gen Accident	75	Brit Land	16
Gen Electric	17	Land Secs	30
Glaxo	100	MEPC	32
Grand Met	34	Peachey	24
GUS 'A'	75	Samuel Props	18
Guardian	75	**Oils**	
GKN	32	Brit. Oil & Min	2½
Hanson Tst	16	Brit Petroleum	48
Hawker Sidd.	52	Burmah Oil	30
ICI	50	Charterhall	3
'Imps'	28	Premier	3½
Jaguar	27	Shell	55
Ladbroke	32	Tricentrol	15
Legal & Gen	79	Ultramar	18
Lex Service	38	**Mines**	
Lloyds Bank	55	Cons Gold	40
Lucas Inds	60	Lonrho	25
		Rio T Zinc	50

A selection of Options traded is given on the London Stock Exchange Report Page.

LONDON SHARE SERVICE

BRITISH FUNDS

Interest Due	Stock	Price £	Last xd	Yield Int.	Yield Red.
	"Shorts" (Lives up to Five Years)				
29 Apr 29 Oct	Exch 14pc 1986	101¼	24 3	13.83	9.56
21 May 21 Nov	Exch 2½pc 1986	98¼	14 4	2.54	7.24
22Jul 22Jan	Exch 13¼pc 1987	102½	16.6	12.97	9.11
10 Aug 10 Feb	Treas 10½pcCv '87	100	4 7	10.19	9.27
24Aug 24Feb	Exch 2½pc 1987	97	20 1	2.56	6.45
6Oct 6Apr	Exch 10½pc 1987	100½	3.3	10.42	9.36
1 Nov 1 May	Funding 6½pc '85-87‡‡	98¼	25 3	6.62	8.72
12Dec 12Jun	Treas 10pc 1987	100	5 5	9.94	9.32
14Jan 14Jly	Treas 3pc 1987	96	30 6	3.11	6.81
3May 3Nov	Treas 12pc 1987	103¼	28 3	11.62	9.25
26 Jul 26 Jan	Treas 7¾pc 1985-88‡‡	98¼	19 6	7.88	8.89
10Nov 10May	Exch 10½pc '88	102½	3 4	10.24	8.97
14Dec 14Jne	Treas 9¾pc Cv '88	101¼	8.5	9.63	9.01
1Jan 1Jul	Transport 3pc '78-88	93¼	27.5	3.22	6.69
25 Apr 25 Oct	Treas 9½pc '88	100	19.3	9.42	9.07
22 Aug 22 Feb	Treas 11½pc 1989	105	16 1	10.97	9.11
18 Oct 18 Apr	Treas 9½pc Cnv '89	101½	12.3	9.37	6.91
15Nov 15May	Treas 3pc 1989	90¼	8.4	3.32	6.86
14Dec 14Jun	Treas 10½pc 1989	103	8.5	10.13	9.03
1Feb 1Aug	Exch 10pc 1989	102	25 6	9.75	9.04
29 Mar 29 Sep	Exch 11pc 1989	105½	20.2	10.44	9.01
15 Apr 15 Oct	Treas 5pc 1986-89	91	10 3	5.44	7.85
15 May 15 Nov	Exch 10¼pcCv '89	107¼	8 4	9.56	7.74
15 Jul 15 Jan	Treas 13pc 1990‡‡	111	9 6	11.63	9.00
12 Aug 12 Feb	Exch 11pc 1990‡‡	105	6 1	10.40	9.02
22 Sep 22 Mar	Exch 12½pc 1990	110¼	13.2	11.29	9.01
8 Nov 8 May	Treas 3pc 1990	87¼	1 4	3.43	6.78
15 Dec 15 Jun	Treas 8¼pc 1987-90‡‡	98¼	9.5	8.39	8.74
25 Apr 25 Oct	Treas 10pcCv 1990	103	19.3	9.66	8.96
22 May 22 Nov	Exch 2½pc 1990	84	15 4	2.95	6.52
10Jan 10Jly	Treas 11¾pc 1991	110	3.6	10.68	8.98
5Oct 5Apr	Funding 5¾pc '87-91‡‡	93	3.3	6.18	7.52
13 Nov 13 May	Treas 3pc 1991	85		3.52	6.59
	Five to Fifteen Years				
25Apr 25Oct	Exch 11pc 1991	108½	19.3	10.14	8.93
22Jly 22Jan	Treas 12¾pc 1992‡‡	116	16 6	10.99	9.01
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS GOVT STERLING ISSUES

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Cont.

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Cont.

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[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY & STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

INDUSTRIALS—Continued

INSURANCES

LEISURE

LEISURE—Continued

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

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PROPERTY—Continued

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

INVESTMENT TRUSTS—Cont.

Finance, Land, etc

FINANCE, LAND—Cont.

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

MINES—Continued

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
—		Anglo Utd Dev	26	—	1.07	♦	5.9
	—	♥Colby Res Corp	45	—	—	—	—
Aug.	Feb.	Cons. Murch. 10c	140	13.1	Q100c	♦	15.8
	—	♥Ennex Int. Ir10p	33	—	—	—	—
—		Greenwich Res	95	—	—	—	—
Apr	Oct	Hampton Areas 10p	146	23.12	♦1.0	—	1.0
	—	♥Highwood Res	232	—	—	—	—
Fb Jun Ag Nv		Homestake Mining $1	£13⅞	30 1	Q20c	—	1.0
—		♥McFinley Red Lake	190	—	—	—	—
	—	♥Musto Explorations	200	—	—	—	—
—		♥New Sabina Res C$1	36	—	—	—	—
—		Northgate C$1	210	9.77	—	—	—
Jan.	July	RTZ	617	12.5	22.0	2.8	5.0
Jan	July	Do. 9½pcLn '95-2000	£135	12.5	Q9½%	15.5	17.3
	—	♥Tara Expln $1	875	—	—	—	—

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 29 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ✦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- ♦ Forecast dividend, cover on earnings updated by latest interim statement.
- † Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ‖ No par value

B Fr. Belgian Francs. Fr. French Francs. ♦♦ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Figures based on prospectus or official estimates for 1984. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	60xc	Fin. 13% 97/02	£122⅞	
Craig & Rose £1	£13	Arnotts	325	+8
Finlay Pkg 5p	43	CPI Hldgs	43	
Holt (Jos) 25p	800	Carroll Inds	165xd	+15
IoM Stm. £1	87	Dublin Gas	53	
		Hall (R. & H.)	72	
IRISH		Heiton Hldgs	30	
Fund 11½% 1988	£103⅛	Irish Ropes	109xd	
Nat. 9¾% 84/89	£101	Unidare	198	

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APPOINTMENTS

Glaxo research executive

Dr Richard B. Sykes has been appointed deputy chief executive of Glaxo Group Research, GLAXO HOLDINGS UK-based research subsidiary. He has recently been a vice president for research in the Squibb Institute for Medical Research in Princeton, New Jersey. Prior to joining that company in 1977, British-born Dr Sykes was a senior scientist with Glaxo at Greenford.

★

Mr Frank Allan has been appointed to the board of ASDA STORES as distribution director. He was distribution director on the Tesco stores board. Appointed to Asda's trading board are Mr Brian Milburn, divisional director, household and leisure (from Debenhams); and Mr John Styles, divisional director, operations services, promoted from associate director, operations.

★

Joining the main board of CAP GROUP are: Mr J. A. R. Chisholm, Mr P. P. C. Gregory and Mr W. H. Fryer. Mr Chisholm is chairman of CAP Scientific and chairman of YARD, the subsidiary of Yarrow, which recently became part of CAP Group. Mr Gregory joins as finance director from Peat, Marwick, Mitchell, where he was a senior manager. Mr Fryer joins from Yarrow where he was group managing director.

★

Mr G. Douglas Fairservice has been appointed to the board of CANDOVER INVESTMENTS as an executive director. He was a senior manager.

★

Mr Joe Mounsey has been appointed vice president and general manager for the UK for THE MANUFACTURERS LIFE INSURANCE GROUP. He was vice president and deputy general manager for the UK, and succeeds Mr Jim Robertson who is retiring to return to Canada.

★

Mr Ben Lyon, chairman of Lloyd's reinsurance brokers JARDINE THOMPSON GRAHAM, has retired from the chair but will remain a non-executive director. He will also continue as chairman and chief executive of Jardine (Lloyd's Underwriting Agents). Mr David Corben has been appointed chairman of Jardine Thompson Graham in addition to his present role as chief executive. Mr Corben is a main board director of Jardine Insurance Brokers Group and Matheson & Co.

★

Mr Chris Rees has joined TOUCHE ROSS ASSOCIATES as a partner. He was with Logica, where he was managing director of the software product group developing and installing database management systems.

★

Mr Tony Brayford, formerly an assistant director of Brixton Estates, has been appointed managing director of WIGGINS PROPERTIES, property development division of Wiggins Group.

★

Mr Malcolm Field, managing director of W. H. Smith (Holdings) has become chairman of NAAFI.

Divisional post at Bayer UK

Mr Dieter Lonishen has been appointed chief executive of the Bayer UK agrochem division. Previously managing director of the crop protection division of Bayer Tarim, Istanbul, he succeeds Mr Kurt Bachem, who has retired.

★

BRITISH RAILWAYS BOARD has appointed Mr Derek Fowler as chairman of BR Pension Trustees in succession to Mr J. M. W. Bosworth. Mr Fowler has been vice-chairman of British Railways Board since 1981 with special responsibilities for finance and planning. He will continue in this post in addition to his new appointment.

★

Mr Gordon Sanders has been appointed chairman, Mr Graham Fox managing director and Mr Tom White, Mr Anthony Hoare and Mr Geoffrey Little directors, and Ms Christine Armour a divisional director, of STEWART WRIGHTSON PROFESSIONAL INDEMNITY, a new London-based company within the Stewart Wrightson Group.

FIDELITY INTERNATIONAL has appointed Mr Barry Bateman as managing director of its unit trust company, Fidelity Investment Services. Mr Richard Timberlake becomes deputy chairman of Fidelity Investment Services and managing director of the group's new holding company, Fidelity International Management Holdings.

★

STOY HAYWARD has appointed three partners, Mr Simon Bax, Mr Danny Foran and Mr Jeremy Newman.

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—
Business Mortgages Tst, 26 Lockyer St, Plymouth, 10.00

BOARD MEETINGS—
Finals
Carclo Eng
Electronic Rentals
Fleming Claverhouse Invst Tst
Platon Int
Vinten
Interims
County Properties
FII Group
Glass Glover
Securiguard

DIVIDEND & INTEREST PAYMENTS—
AE 2.2p
Avon Rubber 2.5p
BBA Group 1.16p
Bibby (J.) 2.75p
Cambrian and General Secs 0.25p
Cannon St Invsts 1p. 7.7pcPf 1994-98 3.85p
Centex Corp 6.25 cts
Costain Group 10.5p
DRG 4.95p
Dataserv Inc 1.65 cts
Fletcher Challenge 16pcPf 17.6 cts
Grattan 4p
Guinness Peat Group 0.9p
Halifax Bldg Soc Fltg Rate Ln Nts 1992 £138.68
Hardanger Props 3.55p
Highland Electronics 1p
House of Fraser 8pcDb 1986-91 4pc
Kennedy Brookes 0.963p
London Edinburgh Tst 4.5p
London and Edinburgh Tst 4.5p
M and G Fund of Invst Tst 2.8p
MacLellan (P. and W.) 1.2p
Memory Computer 7.8pcPf 1994-98 3.9p
North British Can Invst 4.85p
Perry Group 2.85p
Property Hldgs. Invst Tst 1.93p
Queens Moat Houses 7pcPf 3.5p
Richards (Leicester) 2p
Riverview Rubber Ests Berhad 12 sen
Sun Alliance and London Ins 11.75p
Tootal Grp 2.5p
Tracor 9 cts
UK Fltg Rate Nts 1992 $181.68
Walker (J. O.) 3p
Warner Estate Hldgs 7.5p
Watts, Blake, Bearne 3.125p

TOMORROW

COMPANY MEETINGS—
Goldberg A(.), Hospitality Inn, Cambridge St, Glasgow, 10.00
Henderson Group, Ironmongers' Hall, Shaftesbury Place, Barbican, EC, 12.00
JS Pathology, Medical Society of London, 11 Chandos St, W, 12.00
Sandhurst Marketing, Pondtail Close, Horsham, Sussex, 11.00
Spectra Automotive and Eng Prods, Pondtail Close, Horsham, Sussex, 10.00
Time Prods, Savoy Hotl, Strand, WC, 12.00
Wedgwood, 34 Wigmore St, W, 11.30
Young and Company's Brewery, Grosvenor House Hotel, Park Lane, W, 1.00

BOARD MEETINGS—
Finals
British Building and Eng Appliances
Domino Printing Sciences
Hogg Robinson
Stroud Riley Drummond
Toothill (R. W.)
Interims
Fleming Overseas Invst Tst
Granada

DIVIDEND & INTEREST PAYMENTS—
Brickhouse Dudley 2.65p
Land Securities 6.9
Lloyds Eurofinance Gtd £/$ Fltg Rate Nts 1990 12 11/16pc
National Bank of Canada Fltg Rate Nts 1991 $208.97
Nationwide Bldgs Soc Fltg Rate Nts 1995 £135.57
Newcastle and Gateshead Water 4.2pc Max 2.1p, 7pc Max Cons 3.5p, 4.9pc Max Cons 2.45p, 4.9pc Max 2.45p, 3.5pc Cons Pf 1.75p, 2.45pc Perp Pf 1.225p
Northern American Tst 1.4p
RBC Intnl Inc Fd Ptg Red Pf 48 cts
Rush and Tompkins Grp 6.25p
Standard Chartered Fin Gtd Fltg Rate Nts 1994 $414.79
Warrington (Thomas) 1p
Young and Company's Brewery A 4p, N/Vtg 4p

WEDNESDAY JULY 9

COMPANY MEETINGS—
Cakebread, Robey, 318-326 Southbury Rd, Enfield, Middx, 10.00
Continuous Stationery, Gt Eastern Hotel, Liverpool St, EC, 12.00
Deritend Stamping, St Richards House, Victoria Square, Droitwich, Worcs, 12.30
Electra Invst Tst, Electra House, Temple Place, WC, 12.00
Hanover Invsts, 21 Manchester Sq, W, 10.30
Henderson Administration, 26 Finsbury Square, EC, 12.30

BOARD MEETINGS—
Interims
Associated Newspapers
City Site Estates
M and G Dual Tst
Microsystems
Southern Business

DIVIDEND & INTEREST PAYMENTS—
Albion 0.8p
EIS Grp 4.9p
Goldberg (A.) 3p
Leumi Int Invs Gtd Fltg Rate Nts 1987 $18.96
MMT Computing 1.8p
National Westminster Bank Primary Cap FRNs (Series A) $417.93
Smaller Company's Int Tst 0.9p
Sweden (Kingdom of) Undated Fltg Rate Nts $421.08

THURSDAY JULY 10

COMPANY MEETINGS—
Atkins Bros (Hosiery), Old Cottages, Lower Bond St, Hinckley, 12.00
Brown (N.) Invsts, Portland Hotel, Manchester, 2.30
Chesterfield Props, Avery House, 1 Avery Row, W, 11.00
Country and New Town Props, Walter House, 418-422 Strand, WC, 12.00
Fleming Far Eastern Invst Tst, 25 Copthall Ave, EC, 12.00
Harrisons and Crosfield, Baltic Exchange, 14-20 St Mary Axe, EC, 11.15
Jermyn Invst, Walter House, 418-422 Strand, WC, 4.00
Parkland Textile, Parkway Hotel, Leeds, 12.30
Sindall (William), Granville Hotel, Cambridge, 12.15
Yorklyde, Moorbrok Mills, New Mill, Huddersfield, 11.30

BOARD MEETINGS—
Finals
Batleys
Birmingham Mint
Jones Stroud
Kleen-E-Ze
New London Oil
Penny and Giles Int
Stoddard
Symonds Eng
Thorn EMI
Interims
Alexanders Hldgs
Birmid Qualcast
Daily Mail and Gen Tst
Egerton Tst
Fleming Far East Invst Tst
Jersey Electricity
Tribune Invst Tst

DIVIDEND & INTEREST PAYMENTS—
Basix Corp 3 cts
Bridgend Grp 0.35p
British and Commonwealth Shipping 2.8p
Chesterfield Props 7.5p
Hewden-Stuart Plant 1.125p
ICI 8pcLn 1988-93 4pc
JS Pathology 1.33p
London County 6¼pc 1988-90 3⅛pc
MEPC 3p
Magnet Joinery 9pcDb 1989-94 4½pc
Mid-Sussex Water 4.9pc Max Addl 2.45p
NSS Newsagents 1.6p
RHP Grp 1.9p
Raybeck 10¼pcPf 2.892465p
Southern-Evans 8pcDb 1987-92 4pc
Sweden (Kingdom of) Fltg Rate Nts Jan 2005 $385.94
Systems Reliability 3.5p
Treasury 8½pcLn 1984-86 4¼pc
Treasury 11¾pc 1991 5⅞pc
Yorklyde 4.25p

FRIDAY JULY 11

COMPANY MEETINGS—
Aberfoyle Hldgs, St Luke's House, 19 The Green, Richmond, Surrey, 12.15
Buckley's Brewery, Mermaid Hotel, Mumbles, Swansea, 11.00
Millward Brown, Manor House Hotel, Avenue Rd, Leamington Spa, 12.30
Osborne and Little, Waldorf Hotel, Aldwych, WC, 11.00
PWS Int, Adelaide House, London Bridge, EC, 11.00
Tesco, Merchant Taylors' Hall, 30 Threadneedle St, EC, 3.00
UEI, City of London Club, 19 Old Broad St, EC, 12.00

BOARD MEETINGS—
Finals
Cambium Venture Capital
Crown House
Park Food

DIVIDEND & INTEREST PAYMENTS—
Aberdeen Construction Grp 5.7p
Assoc Fisheries 0.5p
Bootham Engineers 3.5p
Buckley's Brewery 2.1p
Carr's Milling Inds 1.75p
Early's of Witney 2.1p
Geers Gross 1.5p
Greenall Whitley Lim Vtg 2.3p, A 0.46p
Hawley Grp 2.85 cts
Henderson Administration Grp 19p
Home Federal Savings and Loan Assoc 5 cts
Imperial Cold Storage and Supply 2.55760p
Investors in Industry 11pc Ln 1988 5½pc, 11¼pcLn 1990 5⅝pc
Minty 1p
National Australian Bank 14.5 cts
Osborne and Little 2p
Parkland Textile 3.2p, A 3.2p
Radio Clyde 1.25p
Ranks Hovis McDougall 2.12p
Reabrook Hldgs 1.7p
Sandhurst Marketing 0.853p
Schlumberger 30 cts
Sindall (William) 9p
Spectra Automotive and Eng Prods 1.678p
Stewart Enterprise Invst 0.4p
UEI 3.5p

SATURDAY JULY 12

BOARD MEETINGS—
Interims
Dewhurst

DIVIDEND & INTEREST PAYMENTS—
Caisse Centrale de Co-operation Econ 12¼pcLn 2013 (Reg) 6⅛pc

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

July 8-10
International Satellite and Cable TV Exhibition and Conference—CABLE (01-868 4466) Met. Exhn. Hall, Brighton

Education, Training and Personnel Development Exhibition and Conference (01-637 2400) NEC Birmingham

July 14-17
International Water Exhibition and Conference — WORLD WATER (0923 778311) Olympia

July 15-17
Systems for the City Exhibition (01-868 4466) Barbican Centre

July 16-18
PC User Show and Conference (01-608 1161) Olympia

July 20-24
Gift Trade Fair (0282 867153) Harrogate Exhibition Centre

July 24-27
Acorn Computer User Christmas Show (01-349 4667) Barbican Centre

July 29-August 3
British Music Fair — MAKING MUSIC (01-385 1200) Olympia

July 31-August 3
National Fitness and Health Exhibition — PHYSICAL (0273 206722) Kensington Exhn. Centre

August 5-10
Women's World Exhibition (0272 215206) Bristol

August 7-10
Collectors Fair for Antiques and Memorabilia (021-780 4171) NEC Birmingham

August 17-19
International Craft and Hobby Fair (04252 72711) Wembley Conference Centre

August 31-September 2
International Jewellery Exhibition (0939 20721) Barbican Centre

September 1-5
Castings and Forgings Exhibition; Furnaces Exhibition; International Foundry Exhibition; Metallurgical Plant Exhibition; Metalworking International Exhibition (0737 68611), International Metalcutting Machine Tools Exhibition (01-402 6671), Subcontracting Exhibition, including Surface Treatment and Finishing (01-486 1951) NEC, Birmingham

September 5-6
Vacancies in systems and information technology — VISIT '86 (01-840 7117) Hotel InterContinental, W1

OVERSEAS TRADE FAIRS

July 7-11
International Powder Metallurgy Exhibition and Conference (01-493 3893) Dusseldorf

July 21-24
International Laboratory Equipment Exhibition — LABEX (021-705 6707) Sydney

August 17-23
City Planning Exhibition (021-705 6707) Xiamen

August 20-23
Office Technology and Computer Exhibition (01-486 1951) Kuala Lumpur

August 22-31
International Trade Fair (Consumer goods — INT SKANEMASSAN (01-486 1951) Malmo

August 26-28
Finnish Fashion Fair (01-486 1951) Helsinki

August 31-September 6
International Autumn Fair (01-240 7013) Leipzig

September 10-14
International Autumn Fair (01-977 4551) Vienna

September 17-24
International Engineering Fair (021-455 9600) Brno

September 23-28
International Road, Rail, Sea and Air Transportation Exhibition (01-968 4567) Guangzhou

BUSINESS AND MANAGEMENT CONFERENCES

July 7-9
City Financial Conferences: The 1986 Insurance Information Exchange (01-242 5275) Connaught Rooms, WC2

The Institute of Petroleum: Introduction to petroleum economics (01-636 1004) 61 New Cavendish Street, W1

July 8-9
Crown Eagle: Defence contract management and negotiation (01-242 4111) The Tower Hotel, E1

July 9-11
HS Conferences: Three days of theft, fraud and negligence (01-935 2352) Cafe Royal, W1

July 10
The Royal Institute of International Affairs: China's seventh Five Year Plan: an assessment (01-930 2233) Chatham House, SW1

July 11
University of Cambridge: Water privatisation (0223 335860) Selwyn College

July 18
Legal Studies and Services: Mergers and acquisitions — strategic tax and accounting issues (01-236 4080) Royal Lancaster Hotel, W2

July 31
London Chamber of Commerce: Seminar on the cause and effects of the "big bang" (01-248 4444) Savoy Hotel, WC2

August 13
Management Training Consultants: Successful supervision (Leicester 27062) Hatfield

August 26-28
FT Conference: World aerospace to the end of the century (01-621 1355) Hotel Inter-Continental, W1

August 28-29
The Robens Institute: Hazards in water — a national seminar to discuss the implications for human health of contaminants of the water cycle University of Surrey, Guildford

September 4-5
Euromoney Conferences: Eurobonds '86 New opportunities in creative markets (01-236 3288) Grosvenor House, W1

September 8-10
Institute for Personnel Management: Personnel statistics (01-946 9100) Embassy Hotel, W2

Frost and Sullivan: Introduction to OSI and its support for message handling systems (01-935 4433) Regent Crest Hotel

September 11
SFS: Stress (01-736 0134) The Royal Gardens Hotel, W8

September 15-16
GDI International Conferences: Intelligent buildings (Zurich 01 724 0020) Zurich

September 15
Copper Development Association: Aluminium bronzes for industry (0707 50711) Cavendish Conference Centre, W1

September 24-25
Euromoney two-day seminar: (1) Options — a risky business? (2) Hedging can be fun (01-236 3288) Grosvenor House Hotel, W1

September 25-26
FT Conference: Pacific Basin oil and gas — prices, investment and the business outlook (01-621 1355) Hotel Regal Meridien, Kowloon

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

WORLD STOCK MARKETS

AUSTRIA

1986 High	1986 Low	July 4	Price Sch.
2,650	2,200	Credit'nst'lt pp	2,200
3,850	3,075	Goesser	3,480
15,000	13,300	Interunfall	14,550
21,750	18,000	Jungbunzlauer	18,200
2,475	1,950	Laenderbank	2,200
795	625	Perlmooser	660
211	130	Steyr Daimler	158
12,500	8,850	Veitscher Mag	12,290

BELGIUM/LUXEMBOURG

1986 High	1986 Low	July 4	Price Frs.
3,500	2,290	B.B.L.	3,060
16,650	9,600	Banq. Gen. Lux.	15,600
17,000	9,400	Banq. Int.A.Lux.	14,300
14,500	8,250	Bekaert	11,950
4,660	2,640	Ciment CBR	3,855
195	120	Cockerill	125
3,190	1,662	Delhaize	3,555xr
4,940	3,580	EBES	4,630
[illegible]	[illegible]	[illegible]	[illegible]

DENMARK

[illegible]

FRANCE

[illegible]

SWITZERLAND

[illegible]

AUSTRALIA

[illegible]

GERMANY

[illegible]

NORWAY

[illegible]

ITALY

[illegible]

HONG KONG

[illegible]

SOUTH AFRICA

[illegible]

SINGAPORE

[illegible]

SWEDEN

[illegible]

NETHERLANDS

[illegible]

JAPAN

[illegible]

SPAIN

[illegible]

NEW YORK

[illegible]

Indices

[illegible]

NEW YORK ACTIVE STOCKS

[illegible]

CANADA

TORONTO
Closing prices July 4

Sales	Stock	High	Low	Close	Chng
3355	AMCA Intl	$16 3/8	16 1/8	16 3/8	
16400	Abitibi Pr	$23 7/8	23 1/2	23 1/2	-3/8
16500	Acklands	$20	20	20	-1/4
1750	Agnico E	$21 3/4	21 5/8	21 5/8	-1/4
13140	Albrta En	$10 1/2	10 3/8	10 1/2	
8700	Albrta N	$12 1/4	12 1/8	12 1/8	
14487	Alcan	$42	41 7/8	41 7/8	-1/8
50	Algo Cent	$22 7/8	22 7/8	22 7/8	
180	Algoma St	$15	15	15	
3900	Asamera	$8 7/8	8 3/4	8 3/4	-1/8
54410	Atco I f	$8 1/8	8	8	
2900	BC Sugar A	$20 1/2	20	20	-1/2
3700	BGR A	$7 5/8	7 1/2	7 1/2	-1/8
1847	BP Canada	$27 3/4	27	27	-3/4
8241	Bk BCol	345	340	345	
46128	Bk Montl	$33 1/8	32 7/8	33	
57856	Bk NScot	$16	15 7/8	16	
99622	Bell Can	$39 1/8	38 7/8	39	+1/8
1875	Bluesky	250	248	250	-2
3775	Bonanza R	155	155	155	-5
13200	Bow Valy	$10 3/8	10 1/4	10 1/4	-1/4
10	Bralorne	150	150	150	
10900	Bramalea	$23 1/2	23	23	-3/4
22936	Brascan A	$25 3/8	25 1/8	25 1/4	+1/8
17800	Brkwater	$5 1/8	495	495	-17 1/2
100	Brenda M	$8 1/4	8 1/4	8 1/4	-1/8
26043	BC ForP	$14 1/4	14 1/8	14 1/8	-1/8
13220	BC Res	131	130	130	-5
16237	BC Phone	$27	26 7/8	26 7/8	-1/8
350	Brunswk	$13 1/2	13 1/4	13 1/4	-1/8
128454	CAE	$13 3/8	12 1/2	12 7/8	+3/8
1250	CCL B f	$19 1/2	19 3/8	19 1/2	-1/8
4000	CIL	$29 1/2	28 1/2	29 1/2	
5450	Cad Frv	$22 3/4	22 5/8	22 3/4	+1/4
10590	Cambridg	$24 3/4	24 1/4	24 3/4	+1/2
5652	Camp RLk	$20 3/8	20 1/8	20 3/8	+1/4
13676	Camp Res	120	115	115	-7
10400	Camp Soup	$34 1/4	34	34	-1/4
3900	Campeau f	$28 5/8	28 1/2	28 1/2	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
12964	Compu In	340	340	340	+5
5000	Con Bath A	$23 1/2	22 1/2	23 1/2	+7/8
33450	CDistb B f	$7	6 7/8	6 7/8	-1/8
18275	Cons Gas	$26	25 7/8	26	
6300	Con Glass	$24 1/8	24	24	-1/4
2985	CTL Bank	$10 3/4	10 1/2	10 1/2	-1/4
87	Conwest B	$8 7/8	8 7/8	8 7/8	
500	Corby	$20 1/2	20 1/2	20 1/2	-1/2
1900	C Falcon C	$18 1/2	18 1/2	18 1/2	
3000	Coseka R	100	95	95	-5
6450	Crownx	$32 3/8	31 7/8	32 3/8	+3/8
52166	Crownx A f	$15	14 3/4	15	+1/4
2000	Czar Res	139	135	139	+4
4400	Denison A p	$6 7/8	6 3/4	6 3/4	
7800	Denison B f	$6 7/8	6 3/4	6 3/4	-1/8
21300	Dicknsn A f	$7 3/8	7 1/8	7 1/8	-1/4
14800	Dicknsn B	$7 3/8	7 1/8	7 3/8	+1/4
5840	Dofasco	$28 3/4	28 3/4	28 3/4	-1/8
10733	Dome Mine	$7 1/4	7 1/8	7 1/4	+1/8
72986	Dome Pete	119	114	114	
1700	D Textile	$22 3/8	22	22	-3/8
9500	Domtar	$31 1/2	31 1/4	31 3/8	
1500	Donohue	$26 1/2	26 1/4	26 1/4	+1/4
31200	Du Pont A	$37	36	37	+1
76000	Dylex A	$19 1/2	19 1/8	19 1/8	-1/4
10	E-L Fin	$59 5/8	59 5/8	59 5/8	
42155	Echo Bay	$21	20 7/8	20 7/8	
100	Emco	$30	30	30	
2800	Equity Svr	425	415	425	
10010	FCA Intl	$17 3/4	17 3/4	17 3/4	-1/4
44110	Fcnbrdg	$21	20 3/4	20 3/4	-1/4
64800	Fed Ind A	$17 1/4	17 1/8	17 1/4	
200	FCity Fin	$15 1/2	15 1/2	15 1/2	-1/8
2800	Gandalf	$9	8 3/4	9	
54	Gaz Metr	$12	12	12	
13400	Geac Comp	$5 1/2	5 1/4	5 1/2	+1/8
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Wall Street was closed on Friday, Independence Day.

MONTREAL
Closing prices July 4

[illegible]

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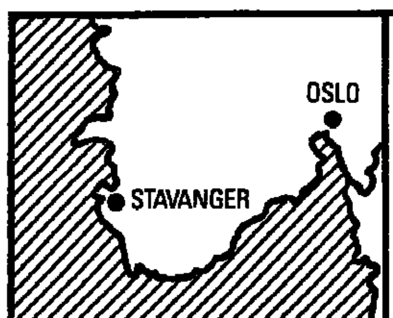

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CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Economic slowdown hits dollar

BY COLIN MILLHAM

Prospects for the dollar appeared to be rather depressing last week. The US currency fell below DM 2.20, and threatened Y160, as economic figures continued to point towards lower interest rates, in the face of sluggish second quarter growth.

The first announcement of second quarter US gross national product growth will be on July 22, but is expected to be below the first quarter figure of 2.9 per cent, which was boosted by building up of stocks, particularly in the car industry, and by defence spending.

Recent figures have suggested a disappointing economic performance by the US, leading to speculation the Federal Reserve's discount rate will be cut to revive growth.

The announcement of a widening of the May US trade deficit to $14.21bn on the previous Friday, set the tone for last week, and once the dollar fell below DM 2.20 it lacked the power to recover.

May US leading indicators showed a disappointing rise of 0.2 per cent, against a median forecast of around 0.4 per cent, while May factory orders fell 0.1 per cent, and would have been down 1.3 per cent without defence capital goods. Thursday's unemployment figures initially appeared more encouraging, falling to 7.1 per cent in June from 7.3 per cent, but employment outside the agricultural sector declined by 89,000, and led to further selling of the dollar.

Mr Henry Kaufman, chief economist of Salomon Brothers, predicted that within two months the Federal Reserve would cut its discount rate by ½ per cent to 6 per cent, and after last week's economic figures the market could see no reason to argue.

The West German Bundesbank called a press conference to follow its regular council meeting. No change was expected in the Bundesbank's discount rate of 3.5 per cent, but the last time the discount rate was cut on March 6, the Lombard rate was left at 5.5 per cent. This is the rate the central bank provides a lending facility for the commercial banks, and there was some speculation a reduction in the Lombard rate was in the offing, or possibly a revision of broad money supply target growth.

Little resulted from the Press conference however. Mr Karl Otto Poehl, president of the Bundesbank, said there was no change in credit policies and no need to revise the money supply target range of 3.5-5.5 per cent. Growth touched 9 per cent earlier this year and has been put forward as a key factor for the central bank's reluctance to cut its interest rates but May was a rather more acceptable 7 per cent on an annualised basis.

West Germany is obviously reluctant to lead the next round of world interest rate cuts but the market believes the US and Japan will take a less conservative line.

Last week the Bank of Japan spent $3bn to $5bn in trying to prevent the dollar falling below Y160 against the yen, ahead of yesterday's Japanese general election, and only just achieved its goal. It has been fairly confidently predicted the US currency will hit a record trading low against the yen this week. On Friday the dollar finished in London at an all-time closing low

The rising yen and the depressed state of the US economy, encouraged thoughts of lower interest rates. With the Japanese election out of the way, and the US back to a full trading week, after the long weekend for Independence Day, the market will expect the Japanese authorities to renew their efforts to prevent the dollar alling towards Y150, and also look for moves from the US to stimulate economic growth.

£ IN NEW YORK

July 3	Close	Prev. close
£ Spot	$1.5455-1.5465	$1.5455-1.5485
1 month	0.43-0.40pm	0.43-0.42pm
3 months	1.16-1.12pm	1.19-1.16pm
12 months	3.95-3.85pm	4.02-3.92pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

July 4	Bank of England Index	Morgan Guaranty Change %
Sterling	76.0	N A
U.S. dollar	113.4	"
Canadian dollar.	78.5	"
Austrian schilling.	127.1	"
Belgian franc	95.6	"
Danish Kroner	86.3	"
Deutsche mark	135.7	"
Swiss franc	163.0	"
Guilder	126.0	"
French franc	69.3	"
Lire	46.4	"
Yen	212.8	"

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (base average 1975=100).

OTHER CURRENCIES

July 3	£	$
Arg'tina	1.3720-1.3750	0.8900-0.8910
Aus'alia	2.3840-2.3890	1.5435-1.5460
Brazil	21.21-21.35	13.77-13.84
Finland	7.8075-7.8205	5.0580-5.0570
Greece	212.35-216.80	137.10-140.20
H'kong	12.0760-12.0850	7.8105-7.8125
Iran	120.00*	77.90*
Kuwait	0.4485-0.4545	0.29100-0.29140
Lux'burg	68.35-68.45	44.45-44.55
Malaysia	4.0505-4.0575	2.6200-2.6230
N'Z'land	2.8600-2.8690	1.8520-1.8590
Saudi Ar.	5.7880-5.7885	3.7500-3.7515
Sin'pore	3.3795-3.3865	2.1860-2.1890
S Af.(Cm)	3.9205-3.9530	2.5510-2.5640
S.Af.(Fn)	6.5665-6.8580	4.2555-4.4445
U.A.E	5.6685-5.6695	3.6725-3.6740

* Selling rate.

CURRENCY RATES

July 4	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	N/A	0.639666
US $	6½	"	0.987645
Canadian $	8.84	"	1.36117
Austria Sch	4	N/A	15.0813
Belgian Fr	8	"	43.9329
Danish Kr	7	"	7.97276
D'mark	3½	"	2.14586
Guilder	4½	"	2.41677
French Fr	9½	"	6.85919
Lira	12	"	1473.07
Yen	3½	"	158.616
Norway Kr.	8	"	7.34660
Span'h Pta.	—	"	137.036
Swedish Kr	8	"	6.99006
Swiss Fr	4	"	1.74142
Greek Drch	20½	"	137.253
Irish Punt	—	"	1.071304

* C$/SDR rate for July 3: 1.63525.

POUND SPOT—FORWARD AGAINST POUND

July 4	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5365-1.5470	1.5365-1.5375	0.44-0.41c pm	3.32	1.21-1.16 pm	3.08
Canada	2.1235-2.1339	2.1235-2.1275	0.37-0.27c pm	1.81	0.83-0.68 pm	1.42
Nethlnd.	3.75¾-3.78¼	3.75¾-3.76¾	1⅛-1⅛c pm	3.99	3⅝-3⅛ pm	3.72
Belgium	68.35-68.83	68.35-68.45	22-16c pm	3.33	54-45 pm	2.89
Denmark	12.41½-12.49	12.41½-12.42½	2¾-1ore pm	1.81	6-3¾ pm	1.59
Ireland	1.1090-1.1145	1.1100-1.1110	0.10-par p pm	0.54	5 pm-5 dis	—
W. Ger.	3.34-3.36	3.34-3.35	1⅛-1¼pf pm	5.83	4½-4⅛ pm	5.23
Portugal	227.53-230.12	227.53-229.22	66-220c dis	−7.24	205-680dis	−7.76
Spain	213.52-214.41	213.52-213.81	75-125c dis	−5.62	80-340 dis	−3.93
Italy	2292½-2306½	2292½-2293½	2-7 lire dis	−2.35	8-15 dis	−2.01
Norway	11.42¼-11.50¼	11.42¼-11.43¼	3¼-4¾ore dis	−4.01	11⅞-12⅞ dis	−4.29
France	10.67¼-10.74	10.67¼-10.68¼	3-2¼c pm	3.02	7¼-6⅞ pm	2.48
Sweden	10.87¼-10.93¼	10.87¼-10.88¼	½ dis-½ore pm	−0.07	½ dis-1⅛pm	−0.25
Japan	246¼-249	246¼-247¼	1⅛-1⅛y pm	5.77	3⅛-3⅛ pm	5.26
Austria	23.51-23.61	23.51-23.54	11⅞-9¾gro pm	5.36	29⅛-26⅛ pm	4.72
Switz.	2.17¾-2.73	2.70¾-2.71¾	1⅛-1⅛c pm	5.53	3⅛-3⅛c pm	4.98

Belgian rate is for convertible francs. Financial franc 68.95-69.05. Six-month forward dollar 2.25-2.18c pm. 12-month 4.02-3.92c pm.

FORWARD RATES AGAINST STERLING

	Spot	1-month	3-month	6-month	12-month
Dollar	1.5370	1.5329	1.5252	1.5149	1.4973
D-Mark	3.3450	3.3288	3.3012	3.2629	3.1944
French Franc	10.6775	10.6511	10.6113	10.5519	10.4508
Swiss Franc	2.7125	2.7003	2.6790	2.6497	1.5903
Japanese Yen	245.75	245.56	243.50	240.57	235.39

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu July 4	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	43.6761	43.9329	+0.59	+0.68	±1.5388
Danish Krone	7.91896	7.97276	+0.68	+0.77	±1.6408
German D-mark	2.13834	2.14586	+0.35	+0.44	±1.1202
French Franc	6.96280	6.85919	−1.49	−1.40	±1.3701
Dutch Guilder	2.40935	2.41677	+0.31	+0.40	±1.5081
Irish Punt	0.712956	0.711304	−0.23	−0.14	±1.6669
Italian Lira	1496.21	1473.07	−1.55	−1.55	±4.0788

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

DOLLAR SPOT—FORWARD AGAINST DOLLAR

EURO-CURRENCY INTEREST RATES

MONEY MARKETS

Bank looks for stability

UK clearing bank base lending rate, 10 per cent since May 22

NEW YORK RATES

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

	July 4	change		July 4	change
TOKYO			PARIS		
One month Bills	4.65625	Unch'd	Intervention Rate	7	Unch'd
Three month Bills	4.71875	Unch'd	One mth. Interbank	7¼	Unch'd
			Three month	7⅛	Unch'd
BRUSSELS			MILAN		
One month	7⅛	Unch'd	One month	12⅛	−⅛
Three month	7⅛	−⅛	Three month	12⅛	+⅛
AMSTERDAM			DUBLIN		
One month	6⅛	+⅛	One month	9⅛	+⅛
Three month	6⅛	Unch'd	Three month	9⅜	+⅛

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, band 3 bills 34 to 63 days and band 4 bills 64 to 91 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.

MONEY RATES

July 4	Ov'r nig't	One Month	Two Months	Three Months	Six Months	Lombard In'v'tin
Frankfurt	4.50-4.60	4.50-4.60	4.50-4.60	4.50-4.65	4.55-4.70	5.5
Paris	7¼	7⅛-7¼	7⅛-7¼	7⅛-7¼	7⅛-7¼	7
Zurich	7⅛-1⅛	4-4⅛	—	4⅛-4⅛	—	—
Amsterdam	6⅛-6⅛	6⅛-6⅛	—	6-6⅛	—	—
Tokyo	4.59375	4.65625	—	4.71875	—	—
Milan	12⅜-12¾	12-12⅛	—	11⅞-12¼	—	—
Brussels	7.75	7⅛-7¼	—	7⅛-7¼	—	—
Dublin	9⅜-9⅞	9½-9⅝	9⅛-9⅛	9¼-9½	9⅛-9⅜	—

FT LONDON INTERBANK FIXING

LONDON MONEY RATES

July 4	Over night	7 days notice	Month	Three Months	Six Months	One Year
Interbank	9-12	10⅛-10⅞	10⅛-10⅛	9⅞-10	9⅛-9⅛	9⅛-9⅛
Sterling CDs	—	—	10⅛-10⅛	9¾-9⅞	9½-9⅝	9½-9⅝
Local Authority Depos	10-10¼	10½	10⅛	9¾-9⅞	9⅛	9⅜
Local Author'y Bonds	—	—	10½	10¼	10	9¾
Discount Mkt Depos	9½-11	10⅛-10⅝	9¾	9¼	—	—
Company Depos	10½-11	10½-10⅞	10⅛-10⅝	9⅛	—	—
Finance House Depos	—	—	10¼	10	9¾	9⅝
Treasury Bills (Buy)	—	—	9⅛	9½	—	—
Bank Bills (Buy)	—	—	9⅞	9½	9¼	—
Fine Trade Bills (Buy)	—	—	10⅛	10	9⅞	9⅞
Dollar CDs	—	—	6.60-6.65	6.55-6.60	6.55-6.60	6.6-6.65
SDR Linked Depos	—	—	6⅛-6⅜	6⅛-6⅛	6⅛-6⅛	6¼-6½
ECU Depos	—	—	7⅜-7½	7⅛-7⅛	7¼-7⅜	7¼-7⅜

Treasury Bills (sell): one-month 9[11]/[32] per cent; three months 9¼ per cent. Bank Bills (sell): one-month 9[27]/[32] per cent; three months 9⅞ per cent. Treasury Bills: Average tender rate at discount 9.3040 per cent. ECGD Fixed Finance Scheme IV reference date June 4 to July 1 (inclusive) 9.824 per cent.

Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 10 per cent from July 1 1986. Bank Deposit Rates for sums at seven days' notice 4.35-4.375 per cent. Certificates of Tax Deposit (Series 6): Deposit £100,000 and over held under one month 10 per cent; one-three months 10 per cent; three-six months 9¾ per cent; six-nine months 9¾ per cent; nine-12 months 9¾ per cent. Under £100,000 9¾ per cent from June 25. Deposits held under Series 5 9¾ per cent. Deposits withdrawn for cash 5½ per cent.

LIFFE LONG GILT FUTURES OPTIONS

Strike price	Calls—Last Sept	Dec	Mar	June	Puts—Last Sept	Dec	Mar	June
116	8.61	9.39	—	—	0.07	0.61	—	—
118	7.07	8.04	—	—	0.17	1.26	—	—
120	5.26	6.41	—	—	0.38	1.63	—	—
122	3.59	5.25	—	—	1.05	2.47	—	—
124	2.43	4.18	—	—	1.53	3.40	—	—
126	1.48	3.22	—	—	2.56	4.44	—	—
128	1.02	2.36	—	—	4.12	5.58	—	—
130	0.37	1.59	—	—	5.47	7.17	—	—

Estimated volume total, Calls 1,654, Puts 300
Previous day's open int. Calls 10,408, Puts 3,588

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike price	Calls—Last Sept	Dec	Mar	June	Puts—Last Sept	Dec	Mar	June
88	12.40	12.22	—	—	0.02	0.30	—	—
90	10.43	10.40	—	—	0.05	0.48	—	—
92	8.50	9.00	—	—	0.12	1.08	—	—
94	7.00	7.33	—	—	0.26	1.41	—	—
96	6.24	6.11	—	—	0.50	2.19	—	—
98	3.61	4.63	—	—	1.23	3.07	—	—
100	2.49	3.61	—	—	2.11	4.05	—	—
102	1.54	3.06	—	—	3.16	5.14	—	—

Estimated volume total, Calls 8, Puts 12
Previous day's open int. Calls 1,533, Puts 568

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

Strike price	Calls—Last July	Aug	Sept	Dec	Puts—Last July	Aug	Sept	Dec
1.30	—	—	24.10	24.10	—	—	0.01	0.34
1.35	19.10	19.10	19.10	19.10	0.00	0.00	0.08	0.79
1.40	14.10	14.10	14.10	14.10	0.00	0.03	0.33	1.63
1.45	9.10	9.10	9.21	10.13	0.00	0.26	1.02	2.99
1.50	4.10	4.71	5.68	7.11	0.06	1.17	2.47	4.97
1.55	0.62	1.94	3.08	4.76	1.61	3.40	4.89	7.62
1.60	0.01	0.58	1.47	3.03	6.00	7.04	8.28	10.89

Estimated volume total, Calls 0, Puts 6
Previous day's open int. Calls 3,434, Puts 4,678

LONDON SE £/$ OPTIONS
£12,500 (cents per £1)

Strike price	Calls—Last July	Aug	Sept	Dec	Puts—Last July	Aug	Sept	Dec
1.35	—	—	19.80	19.80	—	—	0.50	1.50
1.40	12.40	0.00	10.00	10.20	0.70	0.60	1.40	2.70
1.45	9.30	9.40	9.60	10.30	0.20	0.55	1.20	2.90
1.50	4.30	5.30	6.00	7.30	0.20	1.70	2.60	4.70
1.55	0.90	2.40	3.40	4.75	1.90	3.95	4.90	7.30
1.60	0.20	1.00	1.80	3.00	6.10	7.40	8.30	10.60
1.65	0.20	0.45	0.90	1.90	11.00	11.70	12.30	14.20

Previous day's open int. Calls 3,866, Puts 1,651
Volume, 5

PHILADELPHIA SE £/$ OPTIONS
£12,500 (cents per £1)

Strike price	Calls—Last July	Aug	Sept	Dec	Puts—Last July	Aug	Sept	Dec
1.30	—	—	24.30	24.30	—	—	0.05	0.30
1.35	19.30	—	10.30	19.30	—	—	0.10	0.60
1.40	14.30	—	14.30	14.35	—	—	0.30	1.30
1.45	9.30	9.30	9.55	10.20	—	0.35	0.85	2.30
1.50	4.50	5.15	5.75	7.05	0.10	1.25	2.15	4.05
1.55	0.90	2.30	3.20	4.65	1.40	3.30	4.40	6.66
1.60	0.15	0.95	1.50	2.80	5.75	6.56	7.40	9.70

Previous day's open interest, Calls 32,709, Puts 39,356
Previous day's volume, Calls 8,023, Puts 9,934

LIFFE—EURODOLLAR OPTIONS
$1m points of 100%

Strike price	Calls—Last Sept	Dec	Mar	June	Puts—Last Sept	Dec	Mar	June
92.00	1.56	1.51	—	—	0.00	0.04	—	—
92.25	1.31	1.28	1.18	—	0.01	0.06	0.16	—
92.50	1.06	1.06	0.99	—	0.01	0.09	0.22	—
92.75	0.83	0.86	0.81	—	0.03	0.14	0.29	—
93.00	0.61	0.67	0.64	—	0.06	0.20	0.37	—
93.25	0.42	0.51	0.50	—	0.12	0.29	0.48	—
93.50	0.26	0.36	0.37	—	0.21	0.39	0.60	—

Previous day's open int. Calls 636, Puts 815
Estimated volume, Calls 5, Puts 30

LONDON

20-YEAR 12% NOTIONAL GILT
£50,000 32nds of 100%

	Close	High	Low	Prev
Sept	124-27	125-04	123-31	123-26
Dec	124-21	124-10	124-08	123-20
March	124-11	124-00	124-00	123-10
June	124-07	—	—	123-06

Estimated volume 12,473 (10,437)
Previous day's open int 21,365 (21,013)

THREE-MONTH EURODOLLAR
$1m points of 100%

	Close	High	Low	Prev
Sept	93.55	93.56	93.54	93.51
Dec	93.47	93.49	93.45	93.43
March	92.27	93.30	—	93.22
June	92.99	92.99	—	92.94
Sept	92.70	—	—	92.65
Dec	92.39	—	—	92.34
March	92.12	—	—	92.07

Estimated volume 1,297 (4,353)
Previous day's open int 18,045 (17,772)

US TREASURY BONDS

CERT. DEPOSIT (IMM) $1m
points of 100%

	Close	High	Low	Prev
Sept	93.77	93.87	—	93.77
Dec	93.64	93.76	—	93.64
March	—	—	—	93.14

THREE-MONTH EURODOLLAR (IMM)
$1m points of 100%

CHICAGO

CURRENCY FUTURES

LONDON financial futures and options prices are for July 4. Chicago futures and Philadelphia options prices are for July 3, owing to the closure of US markets for Independence Day.

EXCHANGE CROSS RATES